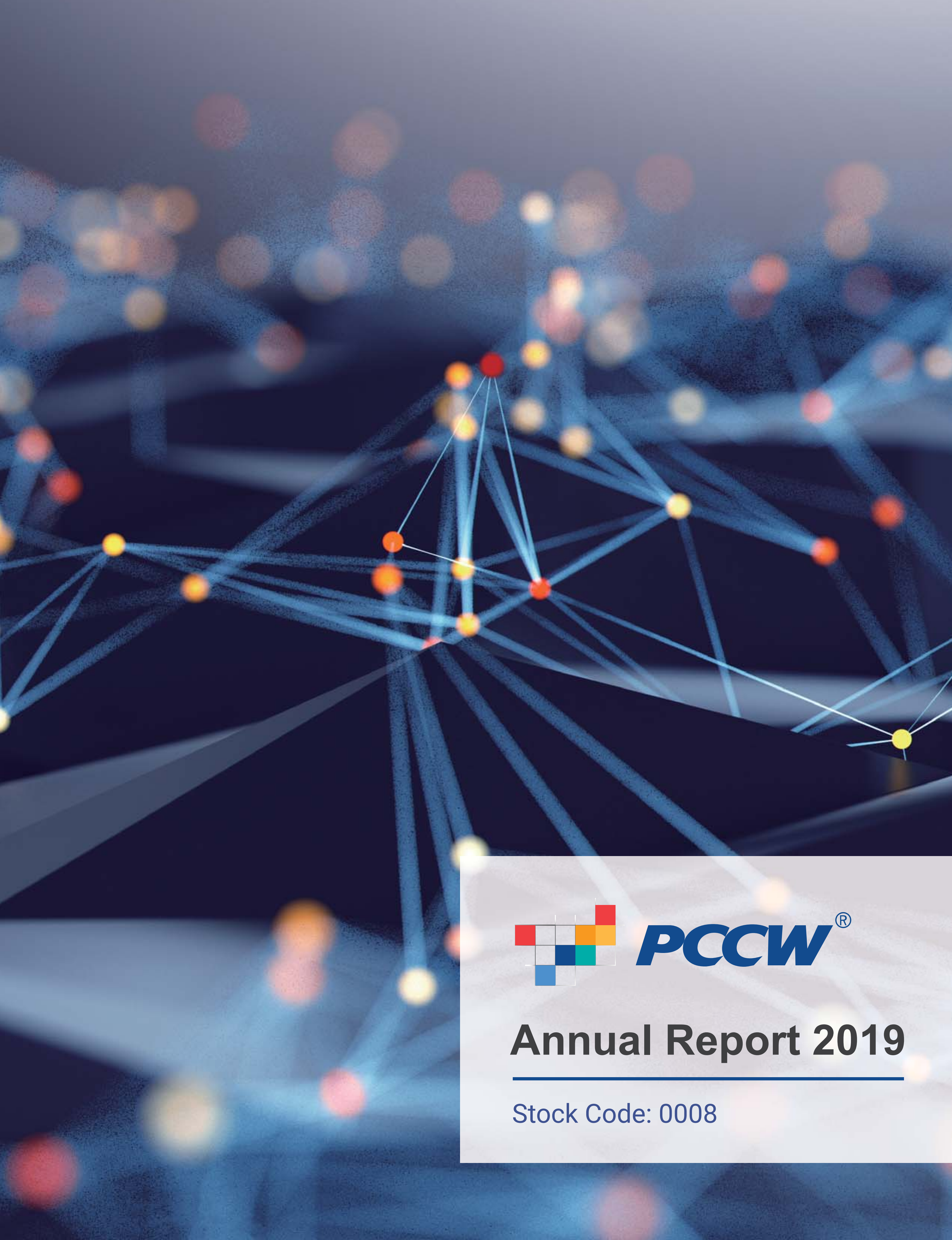


PCCW®

Annual Report 2019

Stock Code: 0008

CONTENTS

CORPORATE PROFILE

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

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

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

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

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

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

Employing over 24,700 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

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

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

HKT

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

HKT is Hong Kong's largest broadband service provider with its fiber network covering 88% of homes. CSL Mobile operates the csl and 1O1O mobile service brands.

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

Its international operating division, PCCW Global, operates a Tier-1 global Internet backbone network with 125 points of presence across 76 cities and encompasses over 60 cable systems worldwide.

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

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

PCCW Media

PCCW Media Group operates the leading pay-TV service in Hong Kong under the Now TV brand, offering a wide range of local and international content through linear TV channels, on-demand and via OTT (over-the-top) apps. Now E is a subscription OTT service offering premium, exclusive dramas, movies and sports content to meet the needs of millennial viewers. PCCW Media also operates popular digital music streaming service MOOV in Hong Kong.

PCCW Media Group also provides a pan-regional OTT video service under the Viu brand, offering premium content in local and regional languages and subtitles in different genres from top content providers, and Viu Original productions.

Operated independently by HK Television Entertainment Company Limited, domestic free TV service ViuTV offers original format factual entertainment content, dramas, news, children and sports programs on its Cantonese channel 99 and English language channel ViuTVsix channel 96.

PCCW Solutions

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

PCCW Solutions offers an Infinitum solutions suite to support companies in various industries to revolutionize business operations and enhance customer experience. In addition, PCCW Solutions also provides digital marketing and consultancy services for its customers to drive marketing transformation.

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

With an office in Singapore as its Southeast Asian business development hub, PCCW Solutions is actively increasing its presence in the region.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that PCCW recorded a stable performance for the year ended December 31, 2019, underpinned by HKT's resilient operations and our ongoing regional expansion of the media and solutions businesses. We achieved this set of results despite the economic setback in Hong Kong in the wake of the social unrest.

Premium programming including world-class sports, movies and original productions remained the key consumer attractions for the Group's multi-platform media business last year. Now TV continued to strengthen its market leadership in Hong Kong while free TV service ViuTV entertained audience with engaging dramas and variety shows. Pan-regional streaming service Viu OTT achieved more than 41 million MAUs (monthly active users) in 17 markets by the end of 2019.

PCCW Solutions, our IT flagship business, delivered encouraging results on its Southeast Asia expansion strategy last year. PCCW Solutions secured several significant contracts from Singapore government departments and large enterprises, and has a new Singapore office which now serves as the regional business hub.

HKT once again demonstrated resilience of its operations in the retail and commercial segments amid a highly challenging local economic environment. Following the successful acquisition of a substantial amount of 5G mobile spectrum from government auctions late last year, we have been working on the network rollout and target to launch 5G services in Hong Kong in April.

Pacific Century Premium Developments' overseas projects continued to proceed according to plan. In Japan, the Park Hyatt Niseko Hanazano Hotel opened for business to the public in January 2020. With more than 90% of the Branded Residences having been sold, PCPD will keep the last few remaining units to be sold at a later date with the expectation that these units may achieve record setting prices in Niseko, before we proceed with our next phase development.

Hong Kong is technically in recession and is recovering from shocks including the social unrest and novel coronavirus (COVID-19) outbreak. PCCW has a strong business with a robust foundation in Hong Kong, and I am confident in our ability to continue to serve Hong Kong people well and maintain our leading market positions, as prosperity gradually returns to the city. At the same time, we will continue our strategy to cautiously pursue opportunities in the regional markets for additional sustainable growth going forward.

Richard Li
Chairman
February 13, 2020

STATEMENT FROM THE GROUP MANAGING DIRECTOR

Hong Kong's economic environment deteriorated rapidly in the second half of last year due to the social unrest. Amid sluggish consumer market sentiment and cautious spending by enterprises, PCCW recorded steady operational performances across its businesses. It is my pleasure to present an overview of our activities in media entertainment, IT solutions, telecommunications, and property development and investment in the following sections.

PREMIUM AND CREATIVE CONTENT FOR VIEWERS

Our media business strategy is to provide premium Asian and international content in sports, movies, dramas and lifestyle through an omni-channel approach, while also providing exceptional customer experience, to meet the diverse viewing habits among audience segments across Hong Kong, Southeast Asia, and the Middle East.

Local pay-TV service Now TV reported stable installed base and ARPU (average revenue per user) in 2019, despite dampened consumer sentiment. In addition to world-class sports content, Now TV also offers the latest and most critically acclaimed Hollywood and Asian blockbuster movies and TV shows. In 2019, 90% of the top 50 worldwide highest grossing box office receipt movies and numerous award-winning TV shows were available on Now TV. Through the Now Player and Now E OTT extensions, we are also able to bring the best of our content to address the digital audience across any connected device, allowing us to explore new market segments.

Now TV has acquired the exclusive Hong Kong broadcast rights for the 2020 UEFA European Football Championship (UEFA EURO 2020™), which will take place in June and July. The kick-off time for most matches take place during Hong Kong's evening primetime hours, which will be favorable for the local audience. We expect this to positively drive subscription, sale of season passes, as well as advertising income.

Pan-regional OTT entertainment service Viu operates in 17 markets including Southeast Asia, the Middle East and South Africa. It continued to record a significant increase in MAUs (monthly active users), to 41 million as of the end of 2019, from 31 million a year ago. Total video views for the full year also jumped 69% to 5.7 billion, when compared to 2018.

The growth was attributable to Viu's focus on content such as popular Asian content and other locally relevant programming, as well as original content creation under Viu Original, which has gained traction across Southeast Asia, particularly in faster growth markets including Thailand and Indonesia. Viu will continue to create content assets through developing original IPs (intellectual properties), adapting globally acclaimed IPs, and utilizing innovative production concepts.

In 2019, free TV service ViuTV recorded satisfactory growth, underpinned by a strong lineup of drama shows as one of its core propositions. ViuTV's original drama productions and variety shows have received positive response from viewers. We will continue to enrich our drama content and variety show lineup to further expand our audience base.

We will also continue to unlock greater synergistic value through the acquisition of premium content for multiple platforms. For example, ViuTV will broadcast select matches of UEFA EURO 2020™ this year, including the opening and final matches, which will help expand its audience reach.

A STRONGER REGIONAL FOOTHOLD FOR IT SOLUTIONS BUSINESS

Last year, PCCW Solutions continued to execute its two-pronged growth strategy, deepening penetration in key industries such as telecommunications, the public sector, and the travel and transportation sector, while accelerating the expansion of its footprint in Southeast Asia.

PCCW Solutions has adopted a consultative selling approach to drive business transformation, and enabled a more agile delivery model to provide cost-effective services and deploy its IP (intellectual property) solutions for winning new customers and contract renewals. In 2019, it continued to secure contracts on mission-critical systems in Hong Kong's public sector. A new data center in Fo Tan, New Territories will soon open its first phase facilities and has already been fully taken up by strategic customers including global cloud providers. By the end of the year, PCCW Solutions built up a substantial backlog of secured contracts despite a slowdown of projects in mainland China. The build-up of backlog was in part attributable to some significant longer-term managed services projects commissioned by government agencies in Singapore in the second half of 2019.

In September 2019, PCCW Solutions expanded its Singapore office, which now serves as its regional hub for Southeast Asia. In November, PCCW Solutions completed its acquisition and integration of HCL Insys Pte. Ltd., a leading IT solutions and outsourcing service provider offering managed services for customers in Singapore. The team will deliver end-to-end IT services, ranging from application development, system integration to digital solutions, and capture opportunities across industries. The synergies created will further strengthen PCCW Solutions' overall capabilities in infrastructure, cloud and automation across Southeast Asia.

To support its regional expansion, PCCW Solutions is setting up a development center in Malaysia for nearshore projects, complementing its existing development center in The Philippines.

SOLID RESULTS FOR HKT

HKT reported solid operational results across its business lines and a steady growth in AFF (adjusted funds flow) for 2019. Its consumer broadband and mobile businesses demonstrated resilience amid intense market competition and deteriorating economic conditions in the second half of 2019. Regarding our commercial telecom business, we experienced some price pressure on the segments that were particularly impacted by the economy setback, but our overall commercial business registered an encouraging performance for the full year underpinned by the momentum of projects for large enterprises and in the public sector.

In the fourth quarter, HKT acquired in government auctions a total of 120 MHz of 5G spectrum in the important mid-bands. Together with 400 MHz of high band spectrum, our substantial holding across all 5G bands will enable HKT to provide a differentiated 5G user experience in busy outdoor areas as well as heavily loaded indoor environments. We are working towards the introduction of 5G service for Hong Kong's early adopters in April. More importantly, we are exploring the deployment of 5G in commercial applications given its ultra-fast speed, massive connectivity, and ultra-low latency.

Last year, HKT continued to grow its new verticals including The Club and financial services. A joint venture comprising PCCW, HKT and other partners, which was granted a virtual banking license in Hong Kong last March, targets to launch its digital banking service in the first half of this year.

PACIFIC CENTURY PREMIUM DEVELOPMENTS (PCPD)

In January 2020, the Park Hyatt Niseko Hanazono Hotel in Hokkaido, Japan welcomed its first guests from the public. PCPD aims to position the hotel as an iconic development in the area and facilitate with the development of the 2.7 million square meter site in Niseko. Last October, the hotel was selected as the venue for the G20 Tourism Ministers' Meeting by the Japan Tourism Agency.

PCPD is also handing over units of its Park Hyatt Niseko Hanazono Residences to buyers. More than 90% of the units have been sold. The last few remaining units are being kept for sale at a later date with the expectation that they may fetch record setting prices in Niseko, prior to our next phase development. Meanwhile, Hanazono EDGE, a restaurant and entertainment centre in the vicinity, began operations last November.

With 86% of its office space reserved or committed at the end of last year, PCPD's premium office building in Indonesia, Pacific Century Place, Jakarta maintained a satisfactory performance throughout 2019.

In Thailand, construction and marketing of the Aquella Lakeside resort at Phang-nga have been proceeding according to schedule.

LOOKING AHEAD

Last year, Hong Kong was faced with exceptional social and economic challenges. The longer-term impact on the local economy may only be more apparent in the coming quarters, especially as the city is being hit by the novel coronavirus (COVID-19).

In 2020, we will continue to consolidate our advantages and build further strengths across our media entertainment platforms. We aim to further improve the operating efficiency and margin of Now TV. Viu OTT will seek to drive deeper user engagement and capture larger shares in the regional markets, riding on the momentum gained last year. ViuTV will bring in more high quality content and focus on steady growth. We will, however, remain reserved about the outlook of advertising spend in Hong Kong.

With more progress in its regional expansion efforts, PCCW Solutions expects the Southeast Asian markets to make larger contributions going forward.
As Hong Kong's leading IT service provider, we stand ready to serve the digital transformation needs of customers in Hong Kong as investment sentiment gradually recovers.

HKT's resilient operations will continue to generate a steady cash flow. 2020 will be an exciting year for HKT as it launches its 5G mobile network and services.
In addition to offering a differentiated mobile experience for consumers, 5G will present numerous opportunities for commercial applications.

The PCCW Group has a strong local presence and diversified businesses across the region. We will stay focused to maintain our local market leadership as we continue to pursue growth opportunities locally in Hong Kong as well as across Southeast Asia, especially for the media and solutions businesses.

In view of the virus outbreak, we are taking all necessary precautions to safeguard our employees and to ensure business continuity. We will continue to monitor the development and take steps as appropriate to mitigate the risks.

BG Srinivas
Group Managing Director
February 13, 2020

PCCW IN NUMBERS

41.4M
monthly active users of Viu OTT

5.7B
total video views on Viu OTT

9,000+
hours of self produced scripted and non-scripted content in ViuTV library

1.361M
installed base of Now TV

24,700+
staff in 50 countries and cities

1,446
learning and development programs and seminars

20,105
volunteer service hours in 41 ongoing and special community service programs

2.598M
exchange lines

1.620M
broadband access lines

4.679M
mobile subscribers

2.953M
members
of The Club

Consolidated revenue
HK$37.521 billion

Consolidated EBIDTA
HK$12.381 billion

Consolidated profit attributable to equity holders
HK$681 million

Total dividend per share
32.18 HK cents

Solutions business' secured orders
HK$9.271 billion,
30%+ of which from outside Hong Kong

25% of Solutions business' workforce based in Southeast Asia

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

SIGNIFICANT EVENTS IN 2019

JANUARY

PCCW Media secures the exclusive broadcast rights for Premier League from 2019/20 to 2021/22.

FEBRUARY

Viu expands its service footprint to South Africa.

ViuTV relocates its production hub with studios and post-production facilities in Kowloon Bay.

PCCW announces financial results for the year ended December 31, 2018.

MARCH

A joint venture comprising PCCW, HKT, Standard Chartered Bank and Ctrip Financial Management is granted a virtual bank license by the Hong Kong Monetary Authority.

Viu launches Viu Original's reality travelogues "No Sleep No FOMO" to push social media engagement.

APRIL

ViuTV introduces a drama time belt in its evening program schedule.

Now TV launches a STEM Learning Pack for families.

PCCW Solutions is chosen by SP Telecom to build an alternative data fiber network in Singapore.

MAY

PCCW Media secures the exclusive broadcast rights for the 2020 UEFA European Football Championship (UEFA Euro 2020™).

JUNE

HKT showcases 5G and other innovative technologies at the HKT 5G Tech Carnival.

Pacific Century Premium Developments announces to build a golf and country club in Phang Nga, Thailand.

AUGUST

PCCW announces financial results for the six months ended June 30, 2019.

SEPTEMBER

PCCW Solutions expands its office in Singapore as a hub for Southeast Asia business growth.

NOVEMBER

PCCW Solutions completes the acquisition of HCL Insys to accelerate business growth in Southeast Asia.

HKT secures 120 MHz of mid-band 5G spectrum in government spectrum auctions. Together with the 400 MHz of 5G spectrum in the 28 GHz band administratively assigned by the government, HKT holds the largest amount of overall mobile radio spectrum in Hong Kong.

DECEMBER

Pacific Century Premium Developments completes the construction of Park Hyatt Niseko, Hanazono and the Park Hyatt Niseko Hanazono Residences in Hokkaido, Japan.

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

AWARDS

Award	Awardee	Scheme Organizer
15 Years Plus Caring Company Logo	PCCW	The Hong Kong Council of Social Service
51th Distinguished Salesperson Award Programme ▪ Distinguished Salesperson Award ▪ Outstanding Young Salesperson Award	Now TV staff members	The Hong Kong Management Association
Asia CEO Awards 2019 ▪ Technology Company of the Year – Circle of Excellence Award	PCCW Solutions	Carlton Media
Asian Academy Creative Awards 2019 – First Round Award ▪ Hong Kong – Best Documentary Series ▪ Hong Kong – Best Promo or Trailer	ViuTV	Asian Academy Creative Awards
▪ Indonesia – Best Actress in Supporting ▪ Indonesia – Best Branded Programme ▪ Indonesia – Best Promo or Trailer ▪ Indonesia – Best Short Form Content	Viu Indonesia	
▪ Malaysia – Best Adaptation of an Existing Format ▪ Malaysia – Best Comedy Performance ▪ Malaysia – Best Comedy Programme ▪ Malaysia – Best Direction (Fiction) ▪ Malaysia – Best Drama Series ▪ Malaysia – Best Original Programme by a Streamer/OTT	Viu Malaysia	
▪ Thailand – Best Comedy Programme	Viu Thailand	
Asian Academy Creative Awards 2019 – Final ▪ Best Comedy Performance ▪ Best Comedy Programme	Viu Malaysia	Asian Academy Creative Awards

Viu Malaysia receives the Best Comedy Performance and the Best Comedy Programme awards at the Asian Academy Creative Awards 2019 – Final.

Award	Awardee	Scheme Organizer
2019 Asia-Pacific Stevie® Awards ▪ Excellence in Innovation in Technology Industries – More than 100 Employees – Silver Stevie® ▪ Innovation in Content Marketing/Branded Editorial – Bronze Stevie® ▪ Innovation in Social Media Marketing – Sliver Stevie®	PCCW Solutions	The Stevie® Awards
Award of 10,000 Hours for Volunteer Service	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best of I.T. Awards 2018 ▪ My Favorite Pay TV Platform	Now TV	*PCM*
Best of the Best Awards 2019 ▪ Best Lifestyle Brands (Professional Service) – Best Entertainment TV Platform	Now TV	squarefoot.com.hk
CAHK STAR Award 2019 ▪ OTT Award – Gold	PCCW Media – Now E	Communications Association of Hong Kong
Charter on External Lighting ▪ Platinum Award	PCCW	The Environment Bureau
CMO Asia Awards 2019 ▪ Brand Excellence in IT/ITES Sector ▪ Marketing Campaign of the Year	PCCW Solutions	CMO Asia

At the 2019 Asia-Pacific Stevie® Awards, PCCW Solutions receives the awards of Excellence in Innovation in Technology Industries – More than 100 Employees – Silver Stevie®, Innovation in Content Marketing/Branded Editorial – Bronze Stevie® and Innovation in Social Media Marketing – Sliver Stevie®.

At the CAHK STAR Award 2019, Now E of PCCW Media wins the OTT Award – Gold award.

Award	Awardee	Scheme Organizer
e-Brand Awards 2019		*Hong Kong Economic Times* and *e-zone*
▪ The Best Pay TV	Now TV	
▪ The Best OTT Entertainment Platform	Now E	
2019 "Friends of EcoPark"	PCCW	Environmental Protection Department
2018 Gold Award for Volunteer Service ▪ Organization	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
2019 Global Outsourcing 100 List ▪ Best of Leaders	PCCW Solutions	International Association of Outsourcing Professionals®
Headline No.1 Awards 2019 ▪ No.1 Pay TV Services – Lifestyle & Entertainment	Now TV	*Headline Daily*
Highest Service Hour Award 2018 ▪ Private Organisations – Category 1 – Merit	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
2019 Hong Kong Awards for Industries ▪ Innovation and Creativity Award – Certificate of Merit	PCCW Solutions	Hong Kong General Chamber of Commerce
Hong Kong Call Centre Association Awards 2019 ▪ Outbound Contact Centre of the Year (20–50 Seats) – Bronze	PCCW Media	Hong Kong Call Centre Association
Hong Kong ICT Awards 2019 ▪ Smart Living (Smart Home) – Bronze Award	PCCW Solutions	Office of the Government Chief Information Officer and Hong Kong Information Technology Federation
Hong Kong Service Awards 2019 ▪ Pay TV	Now TV	*East Week*

Award	Awardee	Scheme Organizer
2019 Kam Fan Awards		The Association of Accredited Advertising Agencies of Hong Kong
▪ Design & Crafts – Film Crafts Single – Use of Music – Merit ▪ Media – Media Single – Best Use of Data on Targeting – Bronze ▪ Media – Media Single – Best Use of Small Budget (up to HK$0.2M media spending) – Bronze ▪ Promo & Activation – Promo & Activation Single – Use of Digital Platform – Merit	Now TV	
▪ Hong Kong Roots – Gold	ViuTV	
Marketing Excellence Awards 2019		*Marketing*
▪ Excellence In Integrated Marketing – Bronze	PCCW Media – Now TV	
Market Leadership Award 2018/2019		Hong Kong Institute of Marketing
▪ Enterprise Market Leadership Award – Market Leadership in Digital Technology ▪ Triple Crown	PCCW Solutions	
MARKies Awards 2019		*Marketing*
▪ Best Idea – Launch/Relaunch – Bronze ▪ Best Use of Integrated Media – Bronze	ViuTV	
▪ Best Use of Budget – Gold	Now TV	
▪ Best Use of Out of Home – Bronze	PCCW Media – Viu	
Metro Awards For Brand Excellence 2018		*Metro Daily* and *Metro Prosperity*
▪ Best Infotainment TV	Now TV	

ViuTV wins the Hong Kong Roots Gold award at the 2019 Kam Fan Awards.

PCCW Solutions wins the Triple Crown and the Enterprise Market Leadership Award – Market Leadership in Digital Technology awards at the Market Leadership Award 2018/2019.

Award	Awardee	Scheme Organizer
Metro Awards For Service Excellence 2019		*Metro Daily* and *Metro Prosperity*
▪ Excellence in Entertainment OTT Platform Service	Now E	
▪ Excellence in Information and Entertainment Service (Pay TV)	Now TV	
MOB-EX Awards 2019		*Marketing*
▪ Best Mobile Advertising Strategy – Bronze ▪ Best Social Media Strategy – Sliver ▪ Best Use of Social Media – Sliver	PCCW Media – Viu	
2019 Most Influential Brand Award, HK	Viu	Facebook
New York Festivals – TV & Film Awards 2019		New York Festivals
▪ Corporate Image – Attitudinal Training – Hong Kong – Sliver World Medal ▪ Craft: Promotion/Open & ID - Direction: Promotion/ Open & IDs – Hong Kong – Sliver World Medal ▪ Productions – Human Concern – Hong Kong – Sliver World Medal	ViuTV	
NRJ Egypt Radio Ramadan Drama Award 2019		NRJ
▪ Best Actress in a Supporting Role ▪ Best Costume Design ▪ Best Screenplay ▪ Best Series ▪ Best Series Viewer's Choice ▪ Best Set Design ▪ Best Upcoming Actor	Viu Egypt	

Now TV receives the Excellence in Information and Entertainment Service (Pay TV) award at the Metro Awards For Service Excellence 2019.

Award	Awardee	Scheme Organizer
PromaxBDA Asia 2019 ▪ Best Interstitial/Sneak Peeks – Silver ▪ Best Programme Title Sequence – Silver	ViuTV	PromaxBDA
Sing Tao Parents' Choice Brand Awards 2019 ▪ Pay TV Service Family Plan	Now TV	*Sing Tao Daily*
The 10th Hong Kong Outstanding Corporate Citizenship ▪ Volunteer Team – Merit Award	PCCW	The Hong Kong Productivity Council
The Spark Award 2019 ▪ Best Engagement Strategy – Gold ▪ Best Influential Media – Silver ▪ Best Original Content – Silver ▪ Best Promotion Strategy – Gold ▪ Best Use of Branded Content – Silver	PCCW Media – Viu	*Marketing*
The Telly Awards 2019 ▪ Local TV – Campaign – Promotional – Bronze ▪ Promotional Video Craft-Directing – Bronze	ViuTV	The Telly Awards
Top 10 China Software Export and IT Outsourcing Companies 2018 ▪ No.1 in IT Outsourcing ▪ Most Competitive Brand	PCCW Solutions	China Software & Information Service Network

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

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 53, was appointed an Executive Director and the Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

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

Srinivas Bangalore GANGAIAH (aka BG Srinivas)

Group Managing Director

Mr Srinivas, aged 59, was appointed an Executive Director and Group Managing Director of PCCW effective from July 2014. He is a member of PCCW's Executive Committee and holds directorships in certain PCCW group companies. He is also a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. He is also an Alternate Director of certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

As part of the PCCW Group's responsibility, Mr Srinivas is focused to ensure the PCCW Group maintains its leadership position in all its portfolio of business in Hong Kong while crafting strategies to expand each line of business. He has over 30 years of experience and has assisted enterprises in leveraging technology to transform businesses. Prior to joining PCCW, Mr Srinivas had worked for the previous 15 years with Infosys Group, where his last role was the President and Whole-time Director of Infosys Limited. He 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 and Yale University.

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

HUI Hon Hing, Susanna

Group Chief Financial Officer

Ms Hui, aged 55, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, a member of HKT's Executive Committee and an Executive Director of Pacific Century Premium Developments Limited (PCPD).

Ms Hui joined Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999. Since then, she has served the PCCW Group in various capacities in the past 21 years, including as Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Group Chief Financial Officer of HKT from November 2011 to August 2018 and the Chief Financial Officer of PCPD from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

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

LEE Chi Hong, Robert
Executive Director

Mr Lee, aged 68, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee and holds directorships in PCCW group companies, including Pacific Century Premium Developments Limited (PCPD). He is the Non-Executive Chairman and a Non-Executive Director of PCPD.

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

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

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

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

NON-EXECUTIVE DIRECTORS

TSE Sze Wing, Edmund, GBS
Non-Executive Director

Mr Tse, aged 82, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also a member of the Regulatory Compliance Committee of the Board.

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

Mr Tse was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the prestigious Insurance Hall of Fame and in 2017, Mr Tse was awarded the first ever "Lifetime Achievement Award" at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry. In 2018, Mr Tse was conferred an Honorary Degree of Doctor of Business Administration by Lingnan University. In 2019, Mr Tse was also conferred Fellowship by the Hong Kong Academy of Finance. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

LI Fushen

Deputy Chairman

Mr Li, aged 57, became a Non-Executive Director of PCCW in July 2007. He was appointed Deputy Chairman in September 2018 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee.

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

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

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

SHAO Guanglu

Non-Executive Director

Mr Shao, aged 55, became a Non-Executive Director* of PCCW in March 2017 and is a member of the Remuneration Committee of the Board*.

Mr Shao is currently a Director and the Deputy Secretary of Party Leadership Group of China Telecommunications Corporation. In addition, Mr Shao serves as a Non-Executive Director of China Communications Services Corporation Limited and China Tower Corporation Limited*, a Director of GSM Association, Vice Chairman of China Information Technology Industry Federation, Deputy Director of Communication Science and Technology Committee of Ministry of Industry and Information Technology, and Vice Chairman of China Health and Medical Big Data Industry Alliance. He was a founder director of ONF (Open Networking Foundation).

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

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

ZHU Kebing

Non-Executive Director

Mr Zhu, aged 45, became a Non-Executive Director of PCCW in September 2018 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Regulatory Compliance Committee.

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

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

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

* Subsequent to the date of this report, Mr Shao resigned from the Board and Mr Mai Yanzhou was appointed as a Non-Executive Director of PCCW and a member of the Remuneration Committee of the Board, in each case, with effect from March 9, 2020. For details of the biographical information of Mr Mai, please refer to PCCW's announcement dated March 9, 2020. Mr Shao also resigned as a Non-Executive Director of China Tower Corporation Limited with effect from March 6, 2020.

WEI Zhe, David

Non-Executive Director

Mr Wei, aged 49, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of the Remuneration Committee of the Board.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 73, became an Independent Non-Executive Director of PCCW in February 2004 and is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board. He is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairman of HKT's Nomination Committee.

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

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

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

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

Frances Waikwun WONG

Independent Non-Executive Director

Ms Wong, aged 58, was appointed an Independent Non-Executive Director of PCCW effective from March 2012 and is the Chairwoman of the Regulatory Compliance Committee, and a member of the Nomination Committee and the Remuneration Committee of the Board. She is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairwoman of HKT's Remuneration Committee, and an Independent Non-Executive Director of Pacific Century Regional Developments Limited.

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

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

Bryce Wayne LEE

Independent Non-Executive Director

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

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

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

Lars Eric Nils RODERT

Independent Non-Executive Director

Mr Rodert, aged 58, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

Mr Rodert is the founder and director of ÖstVäst Capital Management. He is a director of Brookfield Property Partners L.P.'s General Partner and Brookfield Property REIT Inc., and was a director of Brookfield Infrastructure Partners L.P.'s Managing General Partner from December 2010 to April 2013.

He was a Senior Portfolio Manager for Inter IKEA Treasury in North America and Europe. Prior to this role, he was most recently Chief Investment Officer, Global Equities, at SEB Asset Management and prior to that he was Head of North American Equities at the same firm. Based in Sweden, Mr Rodert has an in depth knowledge of continental European markets and is seasoned in analyzing investment opportunities. He holds a Master of Science Degree in Business and Economics from Stockholm University.

David Christopher CHANCE

Independent Non-Executive Director

Mr Chance, aged 62, was appointed an Independent Non-Executive Director of PCCW and the Independent Non-Executive Chairman and Director of PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW in November 2013.

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

David Lawrence HERZOG

Independent Non-Executive Director

Mr Herzog, aged 60, was appointed an Independent Non-Executive Director of PCCW in October 2017. He is also a member of the Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

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

Prior to joining American General, Mr Herzog held numerous positions at General American Life Insurance Company. Prior to joining General American Life, Mr Herzog was Vice President and Controller for Family Guardian Life, a CitiGroup company and an Audit Supervisor with Coopers & Lybrand.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

CORPORATE STRATEGY

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

CORPORATE GOVERNANCE CODE

PCCW has applied the principles, and complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended December 31, 2019.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

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

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

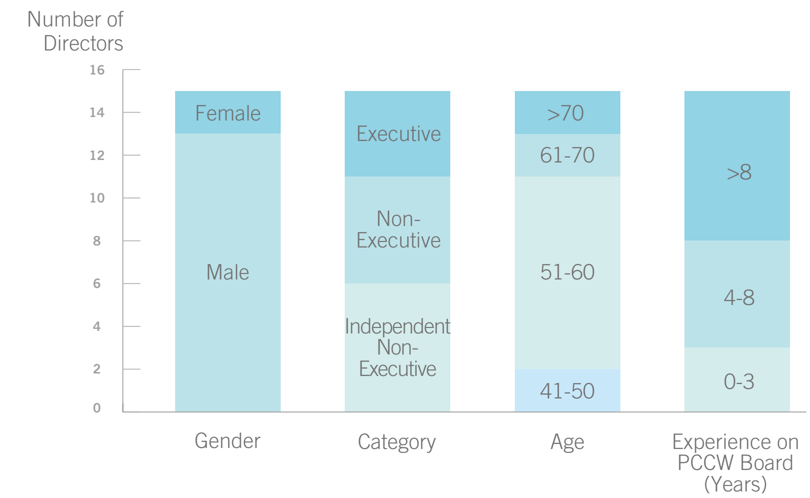
All directors have full and timely access to all relevant information, including monthly updates from the management, regular reports from various Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice,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

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2019, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going concern basis. The statement of the external auditor of the Company relating to its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report of this annual report.

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

BOARD OF DIRECTORS *(CONTINUED)*

Board Composition

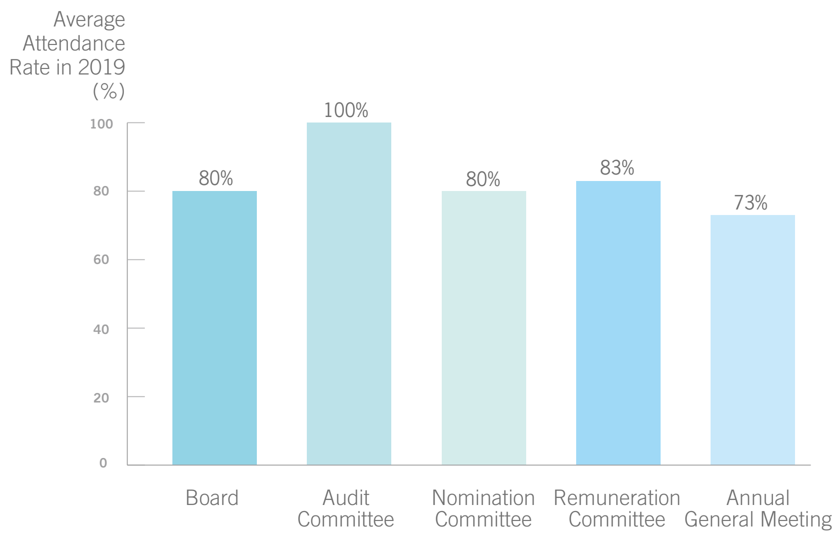


The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

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

The Board held four meetings in 2019. The annual general meeting of the Company was held on May 9, 2019 with the attendance of the external auditor to answer questions.

The following charts show the average meeting attendance rate in 2019 and the attendance of individual directors at the Board and its committee meetings, and the annual general meeting held in 2019:



BOARD OF DIRECTORS *(CONTINUED)*

Name	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
	Meetings attended/eligible to attend in 2019 *(Note)*				
Executive Directors					
Li Tzar Kai, Richard	4/4	N/A	1/1	N/A	1/1
BG Srinivas	4/4	N/A	N/A	N/A	1/1
Hui Hon Hing, Susanna	4/4	N/A	N/A	N/A	1/1
Lee Chi Hong, Robert	4/4	N/A	N/A	N/A	1/1
Non-Executive Directors					
Tse Sze Wing, Edmund	4/4	N/A	N/A	N/A	1/1
Li Fushen	0/4	N/A	N/A	N/A	0/1
Shao Guanglu	0/4	N/A	N/A	0/2	0/1
Zhu Kebing	0/4	N/A	0/1	N/A	0/1
Wei Zhe, David	4/4	N/A	N/A	2/2	1/1
Independent Non-Executive Directors					
Aman Mehta	4/4	3/3	1/1	2/2	1/1
Frances Waikwun Wong	4/4	N/A	1/1	2/2	1/1
Bryce Wayne Lee	4/4	3/3	N/A	2/2	0/1
Lars Eric Nils Rodert	4/4	3/3	N/A	N/A	1/1
David Christopher Chance	4/4	N/A	N/A	N/A	1/1
David Lawrence Herzog	4/4	N/A	1/1	2/2	1/1

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

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

According to the Articles of Association, any director so appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years. The directors who shall retire from office at the forthcoming annual general meeting of the Company are set out on page 64 of this annual report.

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by all directors. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and committees continue to operate effectively and that the performance of the directors and the time commitment in discharging their duties as directors of the Company for the year ended December 31, 2019 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

According to the directors' training records provided to the Company for the year ended December 31, 2019, the CPD training undertaken by all directors during the year is summarized as below:

Name of Director	Type of CPD training *(Note(s))*
Li Tzar Kai, Richard	(a), (b)
BG Srinivas	(a), (b)
Hui Hon Hing, Susanna	(a), (b)
Lee Chi Hong, Robert	(a), (b)
Tse Sze Wing, Edmund	(a), (b)
Li Fushen	(a), (b)
Shao Guanglu	(a), (b)
Zhu Kebing	(a), (b)
Wei Zhe, David	(a), (b)
Aman Mehta	(a), (b)
Frances Waikwun Wong	(a), (b)
Bryce Wayne Lee	(b)
Lars Eric Nils Rodert	(a), (b)
David Christopher Chance	(a), (b)
David Lawrence Herzog	(a), (b)

Notes:

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

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

BOARD COMMITTEES

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

Executive Committee and Sub-committees

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

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

The members of the Executive Committee during 2019 and up to the date of this annual report are:
Li Tzar Kai, Richard *(Chairman)*
BG Srinivas
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Li Fushen

BOARD COMMITTEES *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

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

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

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

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

Remuneration Committee

The Board established the Remuneration Committee in May 2003. The primary responsibility of the Remuneration Committee is to assist the Board in achieving its objectives of attracting, retaining and motivating high-caliber directors and senior management and other members of the Group who will underpin the success of the Company and enhance the value of the Company to shareholders.

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

The members of the Remuneration Committee during 2019 and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Wei Zhe, David
Shao Guanglu*
Frances Waikwun Wong
Bryce Wayne Lee
David Lawrence Herzog

* Subsequent to the date of this report, Mai Yanzhou was appointed as a member of the Remuneration Committee following the resignation of Shao Guanglu with effect from March 9, 2020.

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

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

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

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

The Remuneration Committee met twice in 2019. The attendance of individual directors at the committee meetings is set out on page 27 of this annual report.

The work performed by the Remuneration Committee during 2019 included:

(i) review and approval of the emoluments of executive directors and senior management, including 2018 performance bonus;

(ii) review and approval of the 2019 business key performance indicators and performance bonus scheme for executive directors and senior management;

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

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

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

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee

The Board established the Nomination Committee in May 2003. The primary objective of the Nomination Committee is to assist the Board in ensuring a fair and transparent procedure for the appointment and re-appointment of directors to the Board, and maintaining a balance of skills, knowledge, experience and diversity of perspectives on the Board which are appropriate to the requirements of the Company's business. The duties of the Nomination Committee are set out in its terms of reference which are posted on the websites of the Company and HKEX.

The Board adopted a board diversity policy (the "Board Diversity Policy") with a primary objective to enhance the effectiveness of the Board and the corporate governance standard through promoting and achieving diversity on the Board. The Group recognizes the importance of having a diverse team of Board members, which is an essential element in maintaining an effective Board.

The Board also adopted a nomination policy (the "Nomination Policy") which sets out the procedures and criteria to be used by the Nomination Committee for the selection, appointment and re-appointment of directors.

The Nomination Committee is delegated with the authority to review and assess the diversity of perspectives of the Board and monitor the implementation of the Board Diversity Policy and the Nomination Policy as appropriate. Both the Board Diversity Policy and the Nomination Policy are available on the Company's website.

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

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

The members of the Nomination Committee during 2019 and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Li Tzar Kai, Richard
Zhu Kebing
Frances Waikwun Wong
David Lawrence Herzog

On February 13, 2020, the Nomination Committee, having reviewed the Board's structure, size and composition, nominated Srinivas Bangalore Gangaiah, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Li Fushen and David Christopher Chance to the Board for it to consider and recommend to shareholders, their re-election at the forthcoming annual general meeting. The nominations were made in accordance with the Nomination Policy and the Board Diversity Policy. The Nomination Committee was satisfied that David Christopher Chance has the required integrity, skills and knowledge to continue acting in an independent capacity and contributing to the diversity on the Board with his unique combination of experience and knowledge as described in his biography set out in this annual report. The Nomination Committee formed the view that the Board has maintained an appropriate mix and balance of skills, knowledge, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Subsequent to the date of this report, the Nomination Committee considered the proposed appointment of Mai Yanzhou as a non-executive director of the Company following the resignation of Shao Guanglu, and recommended him for the appointment and re-election at the forthcoming annual general meeting.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee met once in 2019. The attendance of individual directors at the committee meeting is set out on page 27 of this annual report.

The work performed by the Nomination Committee during 2019 included:

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

(ii) recommendation to the Board for approval the list of retiring directors for re-election at the 2019 annual general meeting;

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

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

Audit Committee

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

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To oversee 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 Group's external auditor is PricewaterhouseCoopers (Certified Public Accountants and Registered Public Interest Entity Auditor). PricewaterhouseCoopers has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PricewaterhouseCoopers and the Company which may reasonably be thought to bear on their independence. In order to maintain the external auditor's independence, it would only be employed for non-audit work if the work does not compromise the external auditor's independence and has been pre-approved by the Audit Committee.

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

For the year ended December 31, 2019, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the Group by the external auditor amounted to approximately HK$29 million, HK$3 million and HK$4 million, respectively.

On February 13, 2020, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2020 at the forthcoming annual general meeting.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

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

The members of the Audit Committee during 2019 and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Bryce Wayne Lee
Lars Eric Nils Rodert

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and also reviews their reports. During 2019, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 27 of this annual report.

The work performed by the Audit Committee during 2019 included:

(i) review of the draft annual report and the draft annual results announcement for the year ended December 31, 2018, with a recommendation to the Board for approval;

(ii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the draft management representation letter for the year ended December 31, 2018, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2019 annual general meeting;

(iii) review and assessment of effectiveness of the risk management and internal control systems under the CG Code for the year ended December 31, 2018, with a recommendation to the Board for approval;

(iv) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2018, with a recommendation to the Board for approval;

(v) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the progress of the internal audit function made during 2019;

(vi) review of the draft interim report and the draft interim results announcement for the six months ended June 30, 2019, with a recommendation to the Board for approval;

(vii) review and approval of PricewaterhouseCoopers' confirmation of independence and its report to the Audit Committee for the six months ended June 30, 2019;

(viii) review and approval of the audit strategy memorandum for the year ending December 31, 2019;

(ix) review and approval of PricewaterhouseCoopers' draft audit engagement letter for the year ending December 31, 2019;

(x) review and approval of PricewaterhouseCoopers' pre-year end report to the Audit Committee for the year 2019;

(xi) consideration and approval of the 2019 audit services and pre-approval of the 2020 annual budget for audit and non-audit services;

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

(xii) review of the draft corporate governance report and practices for the year ended December 31, 2018 and the corporate governance disclosure for the six months ended June 30, 2019, in each case with a recommendation to the Board for approval;

(xiii) review of the draft environmental, social and governance report for the year ended December 31, 2018, with a recommendation to the Board for approval;

(xiv) review and assessment of effectiveness of the risk management and internal control systems of the Group during 2019;

(xv) review of the continuing connected transactions with certain members of HKT for the year ending December 31, 2019 and the three years ending December 31, 2022, and of the related announcement by HKT Trust and HKT, with a recommendation to the Board for approval;

(xvi) review of the results of the directors' self-evaluation and the Board's self-assessment exercise for the year ended December 31, 2018 to evaluate the performance of the Board, its committees, and directors' contribution, with a recommendation to the Board for approval;

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

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

Subsequent to the year end, the Audit Committee reviewed the draft annual report and the draft annual results announcement, the effectiveness of the Group's risk management and internal control systems, as well as the draft environmental, social and governance report for the year ended December 31, 2019, with recommendations to the Board for approval.

Regulatory Compliance Committee

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

The members of the Regulatory Compliance Committee during 2019 and up to the date of this annual report are:
Frances Waikwun Wong *(Chairperson)*
Tse Sze Wing, Edmund
David Lawrence Herzog

REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

The first line functions are responsible for identifying and managing risk as part of their accountability for achieving business and operational objectives where they also design and execute the internal control measures on a daily basis. Being the risk owners, the first line functions have the responsibility to review and update the risk profiles on an ongoing basis which are measured against a pre-defined set of likelihood and impact criteria.

The second line functions provide the policies, frameworks, tools, techniques and advisory support to enable risk and compliance oversight of the first line while ascertaining the embedded controls in the operating areas are effective, as well as ensuring the consistency of categorization and measurement of risk attributes. The risk management process integrates both top-down and bottom-up approach to enable the identification, evaluation and management of risks. Mitigation controls are recognized where opportunities for the enhancement of the existing control environment will be implemented. This process is reviewed regularly by the Audit Committee and the Risk Management, Controls and Compliance Committee such that any material findings will be reported to the Board.

The third line functions provide assurance to the Board, executive and senior management of the Group. This assurance work covers how effectively the Company assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

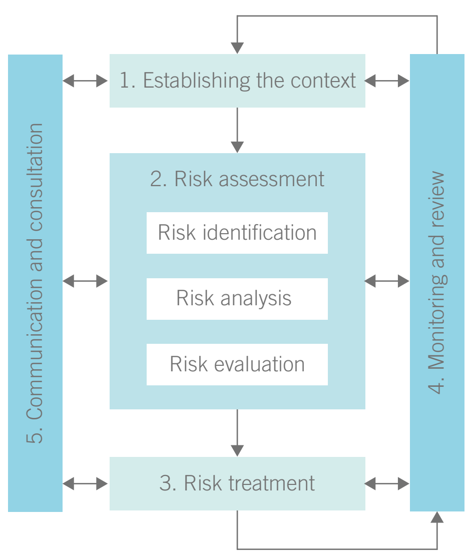
Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material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

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

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

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

The Group adopts the principles of ISO 31000:2018 Risk Management – Principles and Guidelines as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



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

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company review and assess the status of potential risks which may impact their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant and effective, 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 Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to him for consideration by the Audit Committee.

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

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

During 2019, Group Risk Management and Compliance 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. Group Risk Management and Compliance has presented update reports to the Audit Committee, which then reviewed and reported the same to the Board, on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During 2019, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to evaluate their internal controls through the process of updating their operating units' risk registers. These results were assessed by Group Risk Management and Compliance and reported to the Audit Committee, which then reviewed and reported the same to the Board. Group Internal Audit will review these risk registers as part of its annual workplan to determine the validity and appropriateness of the risk assessments.

The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

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

COMPANY SECRETARY

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

During the year ended December 31, 2019, Ms Lomas has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

SHAREHOLDERS' RIGHTS

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

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

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

Procedures by which enquiries may be put to the Board

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Board approved and adopted a dividend policy in November 2018 which sets out its overall objective to deliver steady and sustainable returns to its shareholders. In proposing any dividend payment, the Board will take into account a number of factors which include the Group's financial position and results of operation, the distributions received from its subsidiaries (including from the HKT Trust) and other investments, the funding needs for the operation and expansion of the Group's businesses, the prevailing economic and market conditions, and other factors the Board may consider relevant and appropriate. In general, the dividend payment for a financial year will be made on a semi-annual basis. The policy states the current intention of the Board which is subject to change.

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

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

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

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

CONSTITUTIONAL DOCUMENT

During the year ended December 31, 2019, there was no change made to the constitutional document of the Company. A copy of the constitutional document is available on the websites of the Company and HKEX.

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 13, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Consolidated revenue decreased by 3% to HK$37,521 million
  - ➢ Excluding Mobile product sales, up 3% to HK$34,121 million
- Consolidated EBITDA increased by 1% to HK$12,381 million
- Consolidated profit attributable to equity holders of the Company was HK$681 million

- HKT revenue excluding Mobile product sales increased by 1% to HK$29,703 million
- Media business revenue increased by 1% to HK$4,015 million
  - ➢ Now TV revenue down 6% to HK$2,685 million
  - ➢ OTT revenue up 18% to HK$1,071 million, and
  - ➢ Free TV revenue up 27% to HK$259 million
- Solutions business revenue increased by 3% to HK$4,218 million
- PCPD revenue increased by 238% to HK$1,015 million

- Basic earnings per share amounted to 8.83 HK cents

- Final dividend of 23 HK cents per ordinary share resulting in full year dividend of 32.18 HK cents per ordinary share

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a set of stable financial results for the year ended December 31, 2019. This was achieved in spite of challenging economic conditions in Hong Kong and reflected the resilience of the telecom business and the benefits of expanding the geographic presence of the Media and Solutions businesses.

HKT Limited's ("HKT") revenue excluding Mobile product sales for the year ended December 31, 2019 increased by 1% to HK$29,703 million, underpinned by steady growth in Telecommunications Services ("TSS") and Mobile Services revenue even as competition remained intense. Mobile product sales at HKT remained sluggish reflecting a longer handset replacement cycle especially in view of the impending arrival of 5G handsets and poor consumer sentiment.

Revenue at Now TV eased from 2018 which recorded a one-off contribution due to World Cup and related event passes. Both Free TV and over-the-top ("OTT") businesses maintained their growth momentum with revenue expanding by 27% and 18% respectively from a year ago. The Solutions business revenue increased by 3% to HK$4,218 million on the back of growing contribution from its regional expansion in Southeast Asia and strong data center demand. PCPD recorded 238% growth in revenue to HK$1,015 million with significant growth occurring in the second half of the year as the handover of the Park Hyatt Niseko Hanazono Residences ("Branded Residences") commenced. Consequently, consolidated revenue excluding Mobile product sales increased by 3% to HK$34,121 million.

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

Media business includes the Group's Now TV, OTT and Free TV businesses.

EBITDA at HKT improved by 2% to HK$12,817 million as a result of continued improvement in operating efficiencies. Overall performance at the Media business improved as the Free TV and OTT businesses narrowed their losses with an inflection point occurring in the second half of the year when it turned EBITDA positive. Solutions business' EBITDA remained stable with continued investment to support its regional expansion. With the contribution from the Branded Residences and other properties in its portfolio, PCPD recorded positive EBITDA in the second half of the year. As a result, PCCW's consolidated EBITDA increased by 1% to HK$12,381 million.

Consolidated profit attributable to equity holders of the Company was HK$681 million. Basic earnings per share was 8.83 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 23 HK cents per ordinary share for the year ended December 31, 2019.

OUTLOOK

Last year, Hong Kong was faced with exceptional social and economic challenges. The longer-term impact on the local economy may only be more apparent in the coming quarters, especially as the city is being hit by the novel coronavirus.

In 2020, the Group will continue to consolidate its advantages and build further strengths across its media entertainment platforms. We aim to further improve the operating efficiency and margin of Now TV. Viu OTT will seek to drive deeper user engagement and capture larger shares in the regional markets, riding on the momentum gained last year. ViuTV will bring in more high quality content and focus on steady growth. We will, however, remain reserved about the outlook of advertising spend in Hong Kong.

With more progress in its regional expansion efforts, PCCW Solutions expects the Southeast Asian markets to make larger contributions going forward. As Hong Kong's leading IT service provider, we stand ready to serve the digital transformation needs of customers in Hong Kong as investment sentiment gradually recovers.

HKT's resilient operations will continue to generate a steady cash flow. 2020 will be an exciting year for HKT as it launches its 5G mobile network and services. In addition to offering a differentiated mobile experience for consumers, 5G will present numerous opportunities for commercial applications.

The Group has a strong business and robust foundation in Hong Kong. We will stay focused on serving Hong Kong people well and maintaining our leading market positions, as the city gradually recovers. We will also continue to cautiously pursue growth opportunities in Hong Kong as well as across Southeast Asia, especially for the Media and Solutions businesses.

In view of the virus outbreak, we are taking all necessary precautions to safeguard our employees and to ensure business continuity. We will continue to monitor the development and take steps as appropriate to mitigate the risks.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2018 H1	2018 H2	2018 Full Year	**2019 H1**	**2019 H2**	**2019 Full Year**	Better/ (Worse) y-o-y
Revenue							
HKT	17,022	18,165	35,187	**15,109**	**17,994**	**33,103**	(6)%
HKT (excluding Mobile Product Sales)	13,648	15,782	29,430	**13,768**	**15,935**	**29,703**	1%
Mobile Product Sales	3,374	2,383	5,757	**1,341**	**2,059**	**3,400**	(41)%
Now TV Business	1,392	1,463	2,855	**1,358**	**1,327**	**2,685**	(6)%
OTT Business	394	515	909	**441**	**630**	**1,071**	18%
Free TV Business	99	105	204	**127**	**132**	**259**	27%
Solutions Business	1,709	2,384	4,093	**1,717**	**2,501**	**4,218**	3%
Eliminations	(1,807)	(2,891)	(4,698)	**(2,100)**	**(2,730)**	**(4,830)**	(3)%
Core revenue	18,809	19,741	38,550	**16,652**	**19,854**	**36,506**	(5)%
PCPD	165	135	300	**207**	**808**	**1,015**	238%
Consolidated revenue	18,974	19,876	38,850	**16,859**	**20,662**	**37,521**	(3)%
Cost of sales	(10,152)	(10,490)	(20,642)	**(8,149)**	**(10,758)**	**(18,907)**	8%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(3,349)	(2,624)	(5,973)	**(3,423)**	**(2,810)**	**(6,233)**	(4)%
EBITDA[1]							
HKT	5,639	6,919	12,558	**5,733**	**7,084**	**12,817**	2%
Now TV Business	198	273	471	**204**	**250**	**454**	(4)%
OTT Business	(144)	(192)	(336)	**(235)**	**(79)**	**(314)**	7%
Free TV Business	(131)	(219)	(350)	**(143)**	**(130)**	**(273)**	22%
Solutions Business	271	809	1,080	**293**	**721**	**1,014**	(6)%
Other Businesses	(193)	(400)	(593)	**(233)**	**(276)**	**(509)**	14%
Eliminations	(87)	(343)	(430)	**(312)**	**(538)**	**(850)**	(98)%
Core EBITDA[1]	5,553	6,847	12,400	**5,307**	**7,032**	**12,339**	–
PCPD	(80)	(85)	(165)	**(20)**	**62**	**42**	N/A
Consolidated EBITDA[1]	5,473	6,762	12,235	**5,287**	**7,094**	**12,381**	1%
Core EBITDA[1] Margin	*30%*	*35%*	*32%*	***32%***	***35%***	***34%***	
Consolidated EBITDA[1] Margin	*29%*	*34%*	*31%*	***31%***	***34%***	***33%***	
Depreciation	(1,784)	(1,726)	(3,510)	**(1,604)**	**(1,761)**	**(3,365)**	4%
Amortization	(1,680)	(1,801)	(3,481)	**(1,710)**	**(2,147)**	**(3,857)**	(11)%
Gain/(Loss) on disposal of property, plant and equipment, net	1	(7)	(6)	**(2)**	**(5)**	**(7)**	(17)%
Other gains, net	334	309	643	**426**	**72**	**498**	(23)%
Interest income	71	63	134	**40**	**46**	**86**	(36)%
Finance costs	(893)	(1,006)	(1,899)	**(925)**	**(1,033)**	**(1,958)**	(3)%
Share of results of associates and joint ventures	(26)	94	68	**10**	**23**	**33**	(51)%
Profit before income tax	1,496	2,688	4,184	**1,522**	**2,289**	**3,811**	(9)%
Income tax	(437)	(697)	(1,134)	**(423)**	**(518)**	**(941)**	17%
Non-controlling interests	(874)	(1,279)	(2,153)	**(936)**	**(1,253)**	**(2,189)**	(2)%
Profit/(Loss) attributable to equity holders of the Company							
Consolidated	185	712	897	**163**	**518**	**681**	(24)%
Core	368	934	1,302	**308**	**647**	**955**	(27)%
PCPD	(183)	(222)	(405)	**(145)**	**(129)**	**(274)**	32%

Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, investment properties, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("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 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.

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

Note 4 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. HKT's adjusted funds flow is computed in accordance with the above definition using financial information derived from HKT's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.

HKT

For the year ended December 31, HK$ million	2018			**2019**			Better/ (Worse)
	H1	H2	Full Year	**H1**	**H2**	**Full Year**	y-o-y
HKT Revenue	17,022	18,165	35,187	**15,109**	**17,994**	**33,103**	(6)%
HKT Revenue (excluding Mobile Product Sales)	13,648	15,782	29,430	**13,768**	**15,935**	**29,703**	1%
Mobile Product Sales	3,374	2,383	5,757	**1,341**	**2,059**	**3,400**	(41)%
HKT EBITDA[1]	5,639	6,919	12,558	**5,733**	**7,084**	**12,817**	2%
HKT EBITDA[1] margin	*33%*	*38%*	*36%*	***38%***	***39%***	***39%***	
HKT Adjusted Funds Flow[4]	2,205	2,966	5,171	**2,272**	**3,057**	**5,329**	3%

HKT delivered a solid financial performance in 2019 despite a weak global economic environment and challenging local market conditions. HKT remained focused on deepening its customer engagement, providing innovative value-added services and a better user experience for customers – all of which reinforce HKT's position as the leading integrated telecommunications service provider to both consumer and business customers in Hong Kong.

Total revenue excluding Mobile product sales for the year ended December 31, 2019 increased by 1% to HK$29,703 million, underpinned by steady growth in TSS and Mobile Services revenue even as competition remained intense. Revenue from Mobile product sales of HK$3,400 million was recorded during the year, as compared to HK$5,757 million a year earlier, reflecting a longer handset replacement cycle especially in view of the impending arrival of 5G handsets and poor consumer sentiment.

Total EBITDA for the year was HK$12,817 million, an increase of 2% over the previous year, as HKT continued to drive operating efficiencies across all lines of its business.

Adjusted funds flow for the year ended December 31, 2019 expanded by 3% to HK$5,329 million. Adjusted funds flow per share stapled unit correspondingly grew by 3% to 70.38 HK cents for the year.

HKT recommended the payment of a final distribution of 40.37 HK cents per share stapled unit for the year ended December 31, 2019. This brings the 2019 full-year distribution to 70.38 HK cents per share stapled unit, representing the full payout of the annual adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, including detailed reconciliation between HKT's EBITDA and adjusted funds flow as well as HKT's EBITDA and HKT's profit before income tax, please refer to its 2019 annual results announcement released on February 12, 2020.

Now TV Business

For the year ended December 31, HK$ million	2018 H1	2018 H2	2018 Full Year	**2019 H1**	**2019 H2**	**2019 Full Year**	Better/ (Worse) y-o-y
Now TV Business Revenue	1,392	1,463	2,855	**1,358**	**1,327**	**2,685**	(6)%
Now TV Business EBITDA[1]	198	273	471	**204**	**250**	**454**	(4)%
Now TV Business EBITDA[1] margin	*14%*	*19%*	*16%*	***15%***	***19%***	***17%***	

Revenue for the Now TV business for the year ended December 31, 2019 decreased by 6% to HK$2,685 million compared to HK$2,855 million in 2018, which benefited from the broadcast of the World Cup. After adjusting for the impact of the World Cup and related event passes, underlying revenue of the Now TV business was steady.

Now TV's digital service, Now E, has continued to penetrate into non-TV users via its enhanced user interface and self-subscription model. As at December 31, 2019, Now TV had an installed base of 1,361,000, compared to 1,344,000 a year ago, with an exit average revenue per user ("ARPU") of HK$174.

EBITDA for the year ended December 31, 2019 was HK$454 million, representing a 4% decline but with an improved margin of 17% following Now TV's continued efforts in content cost rationalization and operational efficiency improvements.

The exclusive broadcast of the UEFA EURO 2020™, family segment focused content and immersive sports and entertainment content riding on the imminent 5G launch are several new initiatives that will drive further growth of Now TV in 2020.

OTT Business

For the year ended December 31, HK$ million	2018 H1	2018 H2	2018 Full Year	**2019 H1**	**2019 H2**	**2019 Full Year**	Better/ (Worse) y-o-y
OTT Business Revenue	394	515	909	**441**	**630**	**1,071**	18%
OTT Business EBITDA[1]	(144)	(192)	(336)	**(235)**	**(79)**	**(314)**	7%

Revenue for the OTT business grew by 18% to HK$1,071 million from HK$909 million a year ago underpinned by 32% growth in video OTT revenue to HK$881 million. Now available in 17 markets, the Viu service experienced strong revenue growth across a number of countries in Greater Southeast Asia and the Middle East.

The Viu service had a highly engaged user base of 41.4 million monthly active users ("MAUs") as of December 31, 2019, that watched 5.7 billion videos representing growth rates of 35% and 69% respectively. Strong user growth was experienced particularly in Thailand and Indonesia.

The strong growth in Viu MAUs and increased engagement is supported by our continuing investment in Viu Original productions. Viu's locally relevant, Asian language original content has received critical acclaim and numerous awards. Viu Original productions also provide potential syndication opportunities; for instance, the first season of "The Bridge" has been licensed to HBO Asia for distribution.

We are further enriching the content offering by partnering with international content partners that value Viu's large base of engaged and digitally savvy users. In November, we announced that Discovery's content would be made available to Viu users across the region.

As a result of the enlarged revenue base, the EBITDA loss of OTT business moderated to HK$314 million for the year ended December 31, 2019 as compared to HK$336 million a year ago with a significant improvement experienced in the second half of the year.

Free TV Business

For the year ended December 31, HK$ million	2018 H1	2018 H2	2018 Full Year	**2019 H1**	**2019 H2**	**2019 Full Year**	Better/ (Worse) y-o-y
Free TV Business Revenue	99	105	204	**127**	**132**	**259**	27%
Free TV Business EBITDA[1]	(131)	(219)	(350)	**(143)**	**(130)**	**(273)**	22%

Revenue for ViuTV grew by 27% to HK$259 million for the year ended December 31, 2019 from HK$204 million a year ago. This growth reflected an 11% increase in advertising revenue during the year driven by our expanding viewership. In addition, our non-advertising revenue from drama production and distribution as well as talent management started to generate meaningful contribution during the year.

ViuTV's EBITDA loss for the year ended December 31, 2019 narrowed to HK$273 million, reflecting improvements that commenced in the second half of 2018.

ViuTV has a strong pipeline of programs for the coming year and will continue to focus on delivering high quality drama and innovative programs to drive viewership and growth, as well as diversifying its revenue base beyond advertising.

Solutions Business

For the year ended December 31, HK$ million	2018 H1	2018 H2	2018 Full Year	**2019 H1**	**2019 H2**	**2019 Full Year**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,709	2,384	4,093	**1,717**	**2,501**	**4,218**	3%
Solutions Business EBITDA[1]	271	809	1,080	**293**	**721**	**1,014**	(6)%
Solutions Business EBITDA[1] margin	*16%*	*34%*	*26%*	***17%***	***29%***	***24%***	

Revenue for the Solutions business increased by 3% to HK$4,218 million for year ended December 31, 2019. The increase in revenue was driven by the growth in cloud solutions and infrastructure services as well as the successful execution of mission critical projects for clients including the Hong Kong International Airport. The mix of revenue remained healthy with revenue of a recurring nature representing 60% of total revenue in 2019.

PCCW Solutions has continued its strategy of expanding outside its home market of Hong Kong, in particular expanding its presence in Southeast Asia. In Singapore, it acquired a business that added over 550 headcount and recently won long term contracts serving several Singapore government agencies. PCCW Solutions has also been expanding its headcount in the Philippines and Malaysia to provide near-shore delivery resources. Solutions business' regional strategy is to provide end-to-end IT services, ranging from application development, systems integration, outsourcing to IP solutions, with a focus on the public sector, telecom, travel and transportation industries.

Recurring EBITDA margin was relatively steady at 29% while project based EBITDA margin stabilized. However, to support its regional expansion strategy, the Solutions business started to incur higher overheads. This led to a decrease in overall EBITDA of 6% to HK$1,014 million for the year ended December 31, 2019.

The Solutions business' secured orders increased by 29% to HK$9,271 million as at December 31, 2019. Encouragingly, over 30% of the secured orders is located outside of Hong Kong and will contribute a larger portion of the revenue in the coming years. Data center demand continues to be strong and the Solutions business has secured contracts from anchor clients such as international cloud providers and investment banks for its new data center facilities in Hong Kong, while discussing with potential customers for additional capacity.

PCPD

PCPD recorded total revenue of HK$1,015 million for the year ended December 31, 2019, representing an increase of 238% from HK$300 million in 2018. The increase was mainly due to sales of properties in Japan.

In Hokkaido, the Park Hyatt Niseko, Hanazono (the "Hotel") welcomed its first group of guests in January 2020 and the Branded Residences' handover and inspection with owners has been continuing progressively since December 2019. To date, over 90% of the units have been sold.

In Indonesia, approximately 86% of the office floor space at Pacific Century Place, Jakarta, has been reserved or committed. PCPD expects its innovative design and its wide array of amenities and services to continue to attract top-tier tenants around the world.

In Phang-nga, Thailand, construction of an 18-hole golf course, golf and country club and relevant infrastructure in the first phase is under way. The golf course and golf club are expected to be completed in the fourth quarter of 2020. PCPD commenced sales of the first batch of villas in 2019.

For the project of Nos. 3-6 Glenealy, Central, Hong Kong, PCPD has submitted a redevelopment plan to the Town Planning Board and it is subject to Government approval.

For more information about the performance of PCPD, please refer to its 2019 annual results announcement released on February 11, 2020.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the year ended December 31, 2019 decreased to HK$509 million (2018: HK$593 million).

Eliminations

Eliminations for the year ended December 31, 2019 were HK$4,830 million (2018: HK$4,698 million). This reflects the continued collaboration amongst the Company's business segments mainly including HKT and the Solutions business to jointly serve both internal and external projects.

COSTS

Cost of Sales

For the year ended December 31, HK$ million	2018			**2019**			Better/ (Worse)
	H1	H2	Full Year	**H1**	**H2**	**Full Year**	y-o-y
HKT	8,858	9,122	17,980	**6,950**	**8,837**	**15,787**	12%
The Group (excluding PCPD)	10,125	10,467	20,592	**8,118**	**10,320**	**18,438**	10%
Consolidated	10,152	10,490	20,642	**8,149**	**10,758**	**18,907**	8%

HKT's cost of sales for the year ended December 31, 2019 decreased by 12% to HK$15,787 million, reflecting the lower Mobile product sales during the year. Cost of sales for the core businesses decreased by 10% primarily driven by lower Mobile product sales at HKT and a lower cost of sales at Now TV Business following the streamlining of content costs.

The Group's consolidated total cost of sales for the year ended December 31, 2019 decreased by 8% to HK$18,907 million.

General and Administrative Expenses

For the year ended December 31, 2019, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") increased by 4% to HK$6,233 million largely due to the continued investments to support the regional expansion of the Media and Solutions businesses. Meanwhile, HKT continued to optimize the operating cost efficiencies across its businesses.

Depreciation expenses for the year decreased by 4% to HK$3,365 million as a result of the reduction in the depreciation charge associated with right-of-use assets following HKT's retail shop rationalization, and the Group's ongoing periodic review of the useful lives of network assets. Amortization expenses increased by 11%, which is in line with the increased investments in programs and content for the Free TV and OTT businesses. Content related amortization for the year was HK$960 million, as compared to HK$669 million a year ago.

As a whole, general and administrative expenses increased by 4% year-on-year to HK$13,462 million for the year ended December 31, 2019.

EBITDA[1]

Core EBITDA for the year ended December 31, 2019 was stable at HK$12,339 million with the margin improved to 34% due to lower Mobile product sales at HKT. By business segment, EBITDA for HKT increased by 2% while the EBITDA losses at the Media business narrowed and the Solutions business EBITDA declined by 6%. Excluding Mobile product sales, the core EBITDA margin was 37%.

Other gains, net

Net other gains of HK$498 million were recorded for the year ended December 31, 2019, primarily representing a fair value gain on network capacity access rights. This compared to net other gains of HK$643 million a year ago which largely related to the recognition of certain investment gains.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2019 was HK$86 million. Finance costs increased by 3% to HK$1,958 million mainly due to the overall increase in HIBOR and increase in borrowings to fund PCPD's projects and regional expansion of the Media and Solutions businesses. As a result, net finance costs increased by 6% to HK$1,872 million for the year ended December 31, 2019. The average cost of debt was 3.4% as compared to 3.3% a year ago.

Income Tax

Income tax expense for the year ended December 31, 2019 was HK$941 million, as compared to HK$1,134 million a year ago, reflecting the underlying trend in the Group's profit before income tax.

Non-controlling Interests

Non-controlling interests were HK$2,189 million for the year ended December 31, 2019 (2018: HK$2,153 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2019 was HK$681 million (2018: HK$897 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt[2] was HK$55,499 million as at December 31, 2019 (December 31, 2018: HK$50,240 million). Cash and short-term deposits totaled HK$5,822 million as at December 31, 2019 (December 31, 2018: HK$7,361 million).

As at December 31, 2019, the Group had a total of HK$42,595 million in committed bank loan facilities available for liquidity management and investment, of which HK$16,685 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$28,348 million, of which HK$9,190 million remained undrawn.

The Group's gross debt[2] to total assets was 56% as at December 31, 2019 (December 31, 2018: 53%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2019, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[3]

Group capital expenditure for the year ended December 31, 2019 was HK$5,042 million (2018: HK$3,902 million), of which HKT accounted for about 54% (2018: 66%). Capital expenditure for HKT's Mobile business remained steady in 2019 with spending focused on critical infrastructure enhancements, network capacity expansion and preparation for 5G rollout. Capital expenditure for the TSS business increased during the year, mainly due to the investment in the Ultra Express Link, a submarine cable connecting Tseung Kwan O Industrial Estate and Chai Wan which was ready for service in December 2019, as well as to support customized solutions for enterprises and continued demand for fiber-to-the-home ("FTTH") services. Capital expenditure for the Media business decreased mainly due to completion of the relocation and upgrading of its production studio facilities in 2018. Capital expenditure for the Solutions business increased to support the expansion of data center capacity in Hong Kong. There was an increase in capital expenditure at PCPD to support the Hotel and Branded Residences project.

The Group will continue to invest in building digital capabilities to support its existing businesses and enable its growth in new areas and prudently invest in building a 5G network taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2019, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

As a result, the impacts of these operational and financial risks to the Group are considered not material.

CHARGE ON ASSETS

As at December 31, 2019, certain assets of the Group with an aggregate carrying value of HK$10,310 million (2018: HK$5,052 million) were pledged to secure certain banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2018	**2019**
Performance guarantees	566	**1,093**
Others	160	**165**
	726	**1,258**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at December 31, 2019, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the Directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

HUMAN RESOURCES

The Group had over 24,700 employees as at December 31, 2019 (2018: 23,600) located in 50 countries and cities. About 61% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 23 HK cents (2018: 22.33 HK cents) per ordinary share for the year ended December 31, 2019 to shareholders whose names appear on the register of members of the Company on Friday, May 15, 2020, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Friday, May 8, 2020 ("AGM"). An interim dividend of 9.18 HK cents (2018: 8.91 HK cents) per ordinary share for the six months ended June 30, 2019 was paid to shareholders of the Company in October 2019.

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES

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

The principal activities of the Company's principal subsidiaries, and the principal associate and joint venture of the Group are set out in notes 22 to 24 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 2019 as well as a discussion on the Group's future business development are provided in the Statement from the Chairman, the Statement from the Group Managing Director and the Management's Discussion and Analysis on page 3, pages 4 to 7 and pages 41 to 50 respectively. The above discussions form part of this report.

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

Principal Risks and Uncertainties

The Board has overall accountability for ensuring that risks are effectively managed across the Group and, on behalf of the Board, the Audit Committee coordinates and reviews the effectiveness of the Group's adopted risk management framework and processes. Group Risk Management and Compliance is responsible for the maintenance of the business risk registers while working with the Audit Committee to ensure the registers are kept current, factual and consistent across all Group operating areas. Both the Board and the Audit Committee remain satisfied that the internal risk control framework implemented by the Group continues to provide the necessary elements of enabling business flexibility without compromising the integrity of risk management and internal control systems. The ability of the Group to manage risk is continually evolving through the focus on risk management capability ensuring that it remains robust where risks are being identified, assessed and mitigated effectively.

The significant risks and uncertainties the Group encounters are set out below. They may adversely and/or materially affect the overall business performance, financial conditions, results of operations and growth prospects of the Group 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. Due to the pace and nature at which risks evolve, the Group remains vigilant in addressing these areas of concern and developing appropriate control measures.

Principal Risks and Uncertainties *(continued)*

Key risks related to the Group's businesses and to the industries in which the Group operates along with corresponding mitigation strategies:

Risk	Description	Impact	Key mitigation strategies
Technology Risk *Vulnerability of Cyber Security*	The Group relies on a sound IT infrastructure and operating environment in supporting all aspects of its business.	Any significant system failure or outage, caused by external factors, computer viruses/malwares or human negligence could result in a prolonged service interruption and potential financial and/or reputational losses.	Group Information and Cyber Security Council (GICSC) is set up to keep abreast of any emerging cyber security threats by identifying and implementing security measures intended to reduce the occurrence likelihood and/or the consequences of such risks being realized. A series of controls are also implemented such as deploying next generation anti-malware solution to servers and endpoints through implementing network behavior tools for alerting abnormal network activities while restricting access to unmanaged cloud storage.
Technology Risk *Data Breach*	The Group handles significant amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats.	The business operations, reputation and financial performance would be adversely impacted if the Group sustains severe cyber-attacks and/or other data security breaches that disrupt its operations.	A holistic approach to data governance is adopted since cyber-attacks have become more sophisticated and thus the reliance on safeguarding information assets is of utmost importance. This includes Data Protection Impact Analysis (DPIA) being conducted before entering into any new country or introducing any new product or service while reinforcing appropriate staff training and awareness in relation to data protection and security.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Risk	Description	Impact	Key mitigation strategies
Technology Risk			
Technology Trend	Rapid speed of disruptive innovations enabled by new and emerging technologies and other market forces may outpace the ability of the Group to compete and manage the risk appropriately.	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 an effect on the Group's businesses, financial conditions and results of operations.	The Group is continuously searching for ways in which technologies can provide opportunities to grow and develop its market segment while staying vigilant on identifying potential vulnerabilities, and exercising effective governance and oversight in risk management, as well as any mitigation required during innovation.
Market Risk			
Changes in Macroeconomic and Political Conditions	A slowdown in global economies arising from geopolitical uncertainty, social instability, international sanctions and trade war.	This may result in a significant decline in demand for the Group's services globally in both consumer and corporate sectors.	Ongoing supplier/vendor risk management and diversification of supply chain and technologies deployment through sourcing and working with multi-vendors operating in different jurisdictions to mitigate the macroeconomic and geopolitical risk exposure.
People Risk			
Retention and Motivation of Employees	As a prominent multi-service and technologies provider, retaining and motivating the best people with the right skills and attitudes, at all levels of the organization, is key to the long-term success of the Group.	The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the prospects and results of the Group.	The Group has established training, performance management and reward programs to retain, develop and motivate staff members. Furthermore, the Group has continued to develop succession planning to avoid any major disruption from arising if a key person is lost. This is to ensure business strategy continues to operate and be able to breed a culture of strength.

Principal Risks and Uncertainties *(continued)*

Risk	Description	Impact	Key mitigation strategies
Project Risk			
Project Failure in Property Development	Through the activities of undertaking property development interests (Pacific Century Premium Developments), the Group may be exposed to the effects of adverse changes in foreign government policies and regulations pertaining to land use, ownership and zoning.	The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, natural disasters, labor disputes with contractors and sub-contractors, accidents, changes in government priorities and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized.	As a result, the Group carries out extensive research and market analysis before the development phase is initiated. The Group also employs external party to conduct review on the perspective of environmental sustainability of our business annually.
Regulatory and Legal Risk			
Non-compliance with Laws and Regulations	The Group operates in markets and industries requiring compliance with many regulations such as telecommunications, broadcasting, personal data, financial related etc.	Ineffective management of compliance with applicable laws and regulations may adversely affect the reputation, goodwill and franchise value of the Group and its performance if significant financial penalties are levied or a criminal action is brought against the Group or any of its directors.	The Group has appropriate practices in place to help monitoring changes in applicable laws and regulations and strive to ensure compliance.
Market Risk			
Increasing Competition	The Group operates in markets and industries where the regulatory environment promotes competition and consumer protection.	This has led to intense competition, pricing pressure, higher promotional marketing and customer acquisition expenditures. Meanwhile, aggressive pricing from competitors could also drive revenues and profit margins lower.	The Group has operated in this competitive landscape for over twenty years and continues to strive to compete primarily based on attributes such as functionality, coverage, time to market, ease of integration, pricing, and quality of products and services, as well as longstanding market experience, goodwill and reputation.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Risk	Description	Impact	Key mitigation strategies
Financial Risk			
Currency/Interest Rate Fluctuation	The Group operates in several jurisdictions where there are certain levels of mismatch in assets and liabilities denominated in foreign currencies from time to time. It is exposed to financial risks such as foreign currency risk, interest rate risk and liquidity risk.	Currency and interest rate fluctuations may lead to larger foreign currency exposure and liquidity risk while changing interest rate regime may also impact the cost of financing for the Group.	The Group is regularly monitoring (including sensitivity analysis) to gain more thorough understanding of the potential impact of interest rate and exchange rate movements on the liquidity risk profile of the Group. In addition, the Group actively and frequently performs review while managing its capital structure to maintain balance between shareholder return and sound capital position. Adjustments are made, when deemed necessary, to maintain an optimal capital structure after considering changes in economic conditions and to reduce the cost of capital. As for financing, a significant portion of debts held by the Group is denominated in foreign currencies including United States dollars. Hedging instruments such as foreign exchange forward and/or interest rate swap contracts are used to mitigate the risk exposure due to adverse fluctuations in foreign currency exchange rates and interest rates.

Principal Risks and Uncertainties *(continued)*

Risk	Description	Impact	Key mitigation strategies
Strategic Risk			
Failure of Strategy	The current business model envisages growth, whether by way of organic growth or through new business amalgamation or strategic investments, in telecommunications, media and/or technology sectors.	Failure to identify suitable targets, or failure to successfully integrate them, would adversely impact the corporate growth plans. If market conditions change or if operations do not generate sufficient cash flows or for any other reasons, the Group may decide to delay, change, modify or relinquish certain aspects of its business progression strategies. In addition, the Group continues to expand its operations in overseas markets. This increases its exposure to multiple and occasionally conflicting regulatory regimes, including an increasing number of which that include extra-territorial provisions. The lack of familiarity with such overseas markets, in particularly lacking clarity in the interpretation of constantly changing laws and regulations, increases the operational risk of the Group in achieving further success in those markets.	To mitigate any risk, there is considerable internal knowledge and subject matter expertise across the Group, together with the use of external advisors where deemed appropriate, who are able to provide any necessary information and guidance on relevant matters and pending changes that may have adverse impact on the franchise value of the Group.

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

Environmental Policies and Performance

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

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

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

BUSINESS REVIEW *(CONTINUED)*

Environmental Policies and Performance *(continued)*

To minimize light nuisance, HKT Limited ("HKT") has been supporting the WWF's annual Earth Hour campaign for years. PCCW is a signatory to the Charter on External Lighting scheme of the Environment Bureau and in 2019 received the Platinum Award for switching off external lighting at selected shops at designated hours. Last year, PCCW signed the Energy Saving Charter of the Environment Bureau and has pledged to adopt energy-saving practices in our exchange buildings, and the shops of csl, 1O1O and HKT.

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

We have well-established practices in recycling scrap metals which include copper, iron and steel as well as scrap materials. In accordance with the Producer Responsibility Scheme on waste electrical and electronic equipment (WPRS), removal services for waste electrical and electronic equipment (WEEE) are provided to our customers.

The Group has adopted paperless systems and practices in its daily operations such as human resources and procurement as appropriate, as well as in retail shops and for customer services. E-billing is also offered to customers in a bid to reduce paper consumption. We utilize PEFC (Programme for the Endorsement of Forest Certification) certified paper made with forest materials from a sustainable source for copy paper and printing of bills.

In 2019, all our canteens replaced plastic stirrers with wooden ones to reduce the consumption of single-use plastics. Upcycling DIY workshops were also organized periodically. Our internal newsletter publishes a regular Green Matters column which provides information on environmental issues and the Group's green initiatives.

In 2019, HKT won the Silver Award in the media and communication sector at the Hong Kong Awards for Environmental Excellence. HKT was also granted the Certificate of Excellence at the Hong Kong Management Association's Hong Kong Sustainability Award 2018/19. In addition, PCCW received the Friends of EcoPark 2019 award for our contributions to waste recycling and recovery.

PCCW Solutions data centers are designed and maintained to the highest level of environmental standards. All power supplies including Uninterruptible Power Supply, air-conditioning systems, backup generators and other electrical and mechanical signaling services for our facilities have adopted the most advanced environmental-friendly technologies and measures. Our efforts in the data center have earned us the Leadership in Energy and Environmental Design ("LEED") Platinum accreditation and ISO 14001:2015 certification for Environmental Management System. A new data center built in 2019 is equipped with modular cooling infrastructure and busway power distribution systems to optimize overall energy efficiency.

Pacific Century Premium Developments also strives to integrate sustainability into its business operation. Pacific Century Place, Jakarta, in Indonesia was awarded Final LEED Platinum Certification in 2018 and Greenship New Building V.1.2 Platinum Certification in 2019 in recognition of its sustainable features. Pacific Century Premium Developments head office in Cyberport, Hong Kong, has been recognized as Green Office and Eco-Healthy Workplace by the World Green Organisation.

Environmental-related key performance indicators have been included in the PCCW Environmental, Social and Governance Report 2019. In 2019, PCCW also continued to voluntarily disclose its carbon emissions data to the Environmental Protection Department's Carbon Footprint Repository for Listed Companies in Hong Kong.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders

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

We strive to provide a fair, inclusive and high performing work culture for our employees globally. We believe that human capital is a core organization capability that powers our long-term success. Our comprehensive employment policies protect employees' rights and benefits while offering competitive pay and career progression opportunities.

In 2019, we signed the Joyful@Healthy Workplace Charter, which was launched by the Department of Health and the Occupational Safety and Health Council to promote staff well-being. We launched a series of health and well-being programs and improved our maternity leave and paternity leave benefits.

Endeavoring to be the Employer of Choice, we have devised talent strategies that drive towards enabling the best employee experience and sustaining a diverse and vibrant team. The Group continues to expand its global presence and our workforce now comprises employees of 65 nationalities with a diverse range of expertise and background. In 2019, we signed the Racial Diversity and Inclusion Charter for Employers under the Equal Opportunities Commission.

We have in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver at their optimal level to achieve business performance targets.

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

We have established robust succession and strong talent pipeline, comprehensive training and leadership programs to nurture the talents we need to fuel business growth. We offer opportunities for employees to participate in projects which equip them with state-of-the-art technology or overseas work exposure. In addition, we embark on continual development initiatives to ensure our staff's knowledge and skills remain current with advances in technology and business acumen. 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. To maintain high occupational health and safety standard across the Group, safety training is provided regularly to new and existing staff.

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

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

HKT is introducing 5G mobile communication services in 2020. A joint venture comprising PCCW, HKT and other partners is also set to launch a new virtual bank in Hong Kong, offering customers an option to manage their finances easily and promoting financial inclusion.

HKT has in place a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers. It helps retain customers and provides us with insights to personalize offerings to its members.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

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

In recognition of our outstanding customer service, among other awards, we won more than 180 awards throughout 2019 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, and Mystery Shopper Service Association. The Group received over 65,000 customer compliments in 2019.

With the increased public awareness of the need to protect personal data, we have strengthened our internal policies, procedures and compliance guidelines that govern how we collect, use and manage customer information. The Group set up a Group Information and Cyber Security Council (GICSC) in 2019 to oversee all cybersecurity-related initiatives, investments and ongoing maintenance pertaining to the protection of the Group's core network, servers and endpoints. Certain applicable business units or functions have attained ISO 27001 accreditation for its information security management system, enabling us to align our data security practices in accordance with international standards.

PCCW is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. The Group maintains relationship with around 3,150 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 performance reviews and supplier visits throughout the year, targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements.

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

PCCW supports the Hong Kong community through a diverse range of initiatives serving the elderly, students and youth, children, people with disabilities and other groups. Being the premier telecommunications service provider in Hong Kong, the HKT Limited Group provides hardware and communications services for charities and various community groups in need. We also strive to connect elderly people with technologies that promote active and smart aging.

In 2019, HKT set up a one-stop hotline for senior citizens aged 65 or above. It offers timely technical support to the elderly, helps with contracts and bills, as well as service relocation. Special concessions for home phone, broadband and mobile services are available for eligible applicants from low-income families.

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

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

The Group's corporate volunteer team, comprising employees, their family members and company retirees, last year ran 27 ongoing programs and 14 special programs for various charities and social services groups. In 2019, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2018 (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 2018. The volunteer team also won the Merit 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 2019. In appreciation of the commitment of staff volunteers, PCCW operates a Volunteer Appreciation Scheme whereby employees participating in community services may be entitled to volunteer leave days.

PCCW is awarded the 15 Years Plus Caring Company Logo from Hong Kong Council of Social Service's Caring Company Scheme, in recognition of our having been a caring company for over 15 years.

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

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

Telecommunications Ordinance ("TO")

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

Broadcasting Ordinance ("BO")

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

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

BUSINESS REVIEW *(CONTINUED)*

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

Trade Descriptions Ordinance ("TDO")

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

Competition Ordinance ("CO")

The CO came into effect in December 2015 and is generally consistent with other competition laws. The enforcement of the CO is generally undertaken by the Competition Commission ("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 conducts training sessions for all staff involved in sales, marketing, bids, pricing, contracts, strategy formation, management etc. Under the CO, serious anti-competitive conduct carries a maximum penalty of 10% of annual turnover obtained in Hong Kong (up to 3 years). Potential personal liability of up to the same amounts may also apply. Individuals can also be disqualified from being a director of a company.

Personal Data (Privacy) Ordinance ("PDPO")

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

A separate ESG report for 2019 will be published on the websites of the Company and Hong Kong Exchanges and Clearing Limited in due course in compliance with the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules.

GROUP RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated income statement on page 93.

An interim dividend of 9.18 HK cents per ordinary share (2018: 8.91 HK cents per ordinary share), totaling approximately HK$709 million, was paid to shareholders of the Company in October 2019.

The Board has recommended the payment of a final dividend of 23 HK cents per ordinary share (2018: 22.33 HK cents per ordinary share) for the year ended December 31, 2019, subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

FINANCIAL SUMMARY

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

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, investment properties and interests in leasehold land during the year are set out in notes 15, 17 and 18 respectively to the consolidated financial statements.

BORROWINGS

Particulars of the Group's and the Company's borrowings are set out in notes 28(f) and 29 to the consolidated financial statements.

SHARES ISSUED

There were no new shares of the Company (the "Shares") issued during the year ended December 31, 2019. Details of the share capital of the Company for the year ended December 31, 2019 are set out in note 32 to the consolidated financial statements.

DEBENTURES ISSUED

Details of the guaranteed notes issued by the Group during the year are set out below:

HKT Capital No. 5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.25% guaranteed notes due 2029 at a price of 99.4% of the principal amount with net proceeds of approximately US$495 million (approximately HK$3,880 million) for the Group's general corporate purposes, including repayment of existing indebtedness.

PCPD Capital Limited, an indirect non-wholly owned subsidiary of the Company, issued US$130 million 4.75% guaranteed notes due 2022 at a price of 100.5% of the principal amount with net proceeds of US$130.8 million (approximately HK$1,020.2 million) for servicing general corporate debt and general corporate purposes of Pacific Century Premium Developments Limited ("PCPD") and its subsidiaries (the "PCPD Group"). These notes were consolidated and formed a single series with the existing US$570 million 4.75% guaranteed notes due 2022 (the "2022 Bonds") which was launched in March 2017.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, less than 30% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

DIRECTORS

The directors who held office in the Company during the year and up to the date of this report are:

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

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

Independent Non-Executive Directors
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance
David Lawrence Herzog

In accordance with Article 101 of the Company's articles of association, Srinivas Bangalore Gangaiah, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Li Fushen and David Christopher Chance shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Subsequent to the date of this report, Mai Yanzhou was appointed as a non-executive director of the Company following the resignation of Shao Guanglu with effect from March 9, 2020. In accordance with Article 91 of the Company's articles of association, Mai Yanzhou shall retire from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited (“PCRD”, a substantial shareholder of the Company) announced the execution of a term sheet between PCRD Services Pte Ltd (“PCRD Services”, a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited (“KSH Distriparks”), Pasha Ventures Private Limited (“Pasha Ventures”), Aman Mehta (an independent non-executive director of the Company) and Akash Mehta (the adult son of Aman Mehta) (together, the “Mehta Family”) and Sky Advance Associates Limited (“Sky Advance”, a company controlled by Akash Mehta) in relation to a proposed restructuring (the “Restructuring”) of their respective interests in Pasha Ventures and KSH Distriparks by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH Distriparks is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Restructuring, Pasha Ventures was amalgamated with KSH Distriparks and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. Accordingly, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH Distriparks were approximately 49.87%, 2.61% and 12.94% respectively. Pursuant to a scheme of demerger filed with, and sanctioned by, the High Court at Bombay, KSH Infra Private Limited (“KSH Infra”), a wholly-owned subsidiary of KSH Distriparks was demerged from KSH Distriparks with effect from January 31, 2016 (the “Demerger”) with KSH Infra shareholders holding the same percentage shareholdings in the share capital of KSH Infra as those percentage shareholdings in KSH Distriparks at the time of the Demerger. Interests held by PCRD Services, Sky Advance and the Mehta Family in KSH Infra were disposed of in January 2019. As at December 31, 2019, PCRD Services, Sky Advance and the Mehta Family’s shareholdings in KSH Distriparks were approximately 49.87%, 2.61% and 7.72% respectively. Aman Mehta is a passive investor in KSH Distriparks and does not hold any directorship in KSH Distriparks. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

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

DIRECTORS’ SERVICE CONTRACTS

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

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

As at December 31, 2019, the directors and chief executives of the Company and their respective close associates had the following interests or short positions in the shares, share stapled units jointly issued by HKT Trust and HKT (the "Share Stapled Units"), underlying shares, underlying Share Stapled Units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in the Company

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

	Number of ordinary Shares held					
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Shares in issue
Li Tzar Kai, Richard	–	–	307,694,369 *(Note 1(a))*	1,928,842,224 *(Note 1(b))*	2,236,536,593	28.97%
Srinivas Bangalore Gangaiah	800,000	–	–	2,113,737 *(Note 2)*	2,913,737	0.04%
Hui Hon Hing, Susanna	6,345,555	–	–	1,373,579 *(Note 2)*	7,719,134	0.10%
Lee Chi Hong, Robert	992,600 *(Note 3(a))*	511 *(Note 3(b))*	–	–	993,111	0.01%
Tse Sze Wing, Edmund	–	367,479 *(Note 4)*	–	–	367,479	0.005%

Notes:

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

   (b) These interests represented:

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

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

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

1. Interests in the Company *(continued)*

Notes: *(continued)*

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

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

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

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

2. Interests in the Associated Corporations of the Company

A. HKT Trust and HKT Limited

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

	Number of Share Stapled Units held					
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	158,764,423 *(Note 1(b))*	225,012,037	2.97%
Srinivas Bangalore Gangaiah	50,000	–	–	–	50,000	0.0007%
Hui Hon Hing, Susanna	3,484,532	–	–	561,589 *(Note 2)*	4,046,121	0.05%
Lee Chi Hong, Robert	50,924 *(Note 3(a))*	25 *(Note 3(b))*	–	–	50,949	0.0007%
Tse Sze Wing, Edmund	–	246,028 *(Note 4)*	–	–	246,028	0.003%

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

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

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

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

   (b) These interests represented:

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

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

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

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

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

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

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

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

B. PCPD Capital Limited

The table below sets out the aggregate long positions in the 2022 Bonds issued by PCPD Capital Limited, an associated corporation of the Company, held by the directors of the Company:

	Principal amount of the 2022 Bonds held (US$)				
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total
Lee Chi Hong, Robert	2,250,000 *(Note 1)*	–	–	–	2,250,000
Frances Waikwun Wong	–	–	–	500,000 *(Note 2)*	500,000

Notes:

1. These 2022 Bonds were held jointly by Lee Chi Hong, Robert and his spouse.
2. These 2022 Bonds were held by Frances Waikwun Wong in the capacity as founder of a discretionary trust.

Save as disclosed in the foregoing, as at December 31, 2019, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

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

1. The Company

A. Share Option Scheme

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

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

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

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

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

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

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

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

1. The Company *(continued)*

A. Share Option Scheme *(continued)*

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

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

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2019.

B. Share Award Schemes

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

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

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

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

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

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

1. The Company *(continued)*

B. Share Award Schemes *(continued)*

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

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

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

In respect of the Purchase Scheme, during the year ended December 31, 2019, an aggregate of 4,129,705 Shares and 762,953 Share Stapled Units were awarded pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 1,389,938 Shares made to BG Srinivas, and 953,920 Shares and 136,127 Share Stapled Units made to Hui Hon Hing, Susanna (both of them are directors of the Company). Additionally, 3,595 Shares have lapsed and/or been forfeited and 5,497,040 Shares have vested; and 74,183 Share Stapled Units have lapsed and/or been forfeited and 1,311,657 Share Stapled Units have vested during the year. As at December 31, 2019, 6,290,102 Shares and 1,304,256 Share Stapled Units awarded pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the year ended December 31, 2019, an aggregate of 3,999,795 Shares were awarded pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 338,871 Shares have lapsed and/or been forfeited and 3,710,188 Shares have vested during the year. As at December 31, 2019, 5,646,793 Shares awarded pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2019, no Share Stapled Units have been awarded to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2019 and December 31, 2019, no Share Stapled Units awarded pursuant to the Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 11,936,895 Shares and 1,304,256 Share Stapled Units awarded pursuant to the PCCW Share Award Schemes remained unvested, which respectively represent approximately 0.15% of the total number of Shares in issue and 0.02% of the total number of Share Stapled Units in issue as at that date.

Further details of the PCCW Share Award Schemes, including the fair values of the Shares and the Share Stapled Units on the respective dates of award, are set out in note 34 to the consolidated financial statements.

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

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since its adoption and up to and including December 31, 2019.

B. Share Stapled Units Award Schemes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In respect of the HKT Share Stapled Units Purchase Scheme, during the year ended December 31, 2019, an aggregate of 417,685 Share Stapled Units were awarded pursuant to the HKT Share Stapled Units Purchase Scheme subject to certain vesting conditions, including an award in respect of 231,121 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 38,922 Share Stapled Units have lapsed and/or been forfeited and 1,858,323 Share Stapled Units have vested during the year. As at December 31, 2019, an aggregate of 1,427,904 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested.

In respect of the HKT Share Stapled Units Subscription Scheme, during the year ended December 31, 2019, an aggregate of 1,137,199 Share Stapled Units were awarded pursuant to the HKT Share Stapled Units Subscription Scheme subject to certain vesting conditions and compliance with the applicable requirements of the Listing Rules. Additionally, 31,382 Share Stapled Units have lapsed and/or been forfeited and no Share Stapled Units have vested during the year. As at December 31, 2019, an aggregate of 1,105,817 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 2,533,721 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Award Schemes remained unvested, which represents approximately 0.03% of the total number of Share Stapled Units in issue as at that date.

Further details of the HKT Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 34 to the consolidated financial statements.

3. Pacific Century Premium Developments Limited

Share Option Scheme

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

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

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

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

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

Share Option Scheme *(continued)*

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

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

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

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

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

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

No share options have been granted under the 2015 PCPD Scheme since its adoption and up to and including December 31, 2019.

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

EQUITY-LINKED AGREEMENTS

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

The Group has the share option schemes and the share award schemes with details set out in the section above headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**" and note 34 to the consolidated financial statements.

As at December 31, 2019, there also subsisted in the Group certain outstanding bonus convertible notes issued by PCPD in 2012 in the aggregate amount of HK$592,553,354.40 convertible into 1,185,106,708 ordinary PCPD Shares at the conversion price of HK$0.50 per PCPD Share. The bonus convertible notes can be converted into PCPD Shares at any time provided that PCPD's minimum public float requirements under the Listing Rules could be complied with.

On January 15, 2018, the PCPD Group entered into a sale and purchase agreement (the "SPA") with CSI Properties Limited and its subsidiary (the "CSI Group"), whereby the PCPD Group will allot and issue one non-voting participating share (the "NPS") of a subsidiary of the PCPD Group (the "JV") at an issue price of US$1.00 to the CSI Group upon completion of the SPA. On March 23, 2018, the NPS was allotted and issued to the CSI Group. Subject to certain contingent event having occurred which would give rise to the right to Conversion (as defined below) of the NPS and subject to, among others, payment to the PCPD Group by the CSI Group in accordance with a shareholders' memorandum entered into at completion, the NPS held by the CSI Group would be converted to one new fully paid up ordinary share of the JV (the "Conversion"), representing 50% of the JV's entire issued share capital immediately following the Conversion. As at December 31, 2019, the Conversion has not occurred. Details of the shareholders' memorandum and the transactions contemplated thereunder and the NPS can be found in the joint announcement of the Company and PCPD dated January 15, 2018 and note 19(a) to the consolidated financial statements.

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

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

The Supporting Agreement and the Investor Agreements have not been terminated as at December 31, 2019 and details of which can be found in the joint announcement issued by the Company and PCPD dated May 23, 2013, the circular issued by PCPD dated June 25, 2013 and note 34(c) to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2019, the following persons (other than directors or chief executives of the Company) were substantial shareholders of the Company and had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	*Note(s)*	Number of Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Long Positions			
PCRD		1,753,529,954	22.72%
PCGH	*1*	1,928,842,224	24.99%
Star Ocean Ultimate Limited	*2 and 3*	1,928,842,224	24.99%
The Ocean Trust	*2*	1,928,842,224	24.99%
The Starlite Trust	*2*	1,928,842,224	24.99%
OS Holdings Limited	*2*	1,928,842,224	24.99%
Ocean Star Management Limited	*2*	1,928,842,224	24.99%
The Ocean Unit Trust	*2*	1,928,842,224	24.99%
The Starlite Unit Trust	*2*	1,928,842,224	24.99%
Star Ocean Ultimate Holdings Limited	*3*	1,928,842,224	24.99%
Fung Jenny Wai Ling	*4*	1,928,842,224	24.99%
Huang Lester Garson	*4*	1,928,842,224	24.99%
China United Network Communications Group Company Limited ("Unicom")	*5*	1,424,935,885	18.46%
BlackRock, Inc.	*6*	463,358,378	6.00%
Short Positions			
BlackRock, Inc.	*7*	4,343,000	0.06%

Notes:

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

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

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

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

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

6. These long positions represented interests of controlled corporations which included derivative interests in 4,100,000 underlying Shares derived from unlisted and cash settled equity derivatives. The interests were disclosed based on the disclosure of interest filing made by BlackRock, Inc. on January 4, 2020.

7. These short positions represented interests of controlled corporations which included derivative interests in 2,462,000 underlying Shares derived from unlisted and cash settled equity derivatives. These short positions were disclosed based on the disclosure of interest filing made by BlackRock, Inc. on January 4, 2020.

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

As at December 31, 2019, the following person (other than directors or chief executives or substantial shareholders (as disclosed in the previous section headed "**Interests and Short Positions of Substantial Shareholders**") of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

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

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

Save as disclosed above in this section and the previous section headed "**Interests and Short Positions of Substantial Shareholders**", the Company has not been notified of any other persons (other than directors or chief executives of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at December 31, 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the connected transaction and continuing connected transactions; and significant related party transactions are disclosed in this report and in note 5 to the consolidated financial statements.

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2019, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	CK Asset Holdings Limited ("CK Asset") and its subsidiaries	Property development and investment, hotel and serviced suite operation, property and project management, investment in infrastructure and utility asset operation, brewery and pub operation and aircraft leasing	*(Note)*
Li Fushen	Unicom and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom A-Share
	China Unicom (HK) Limited ("Unicom HK") and its subsidiaries	Telecommunications business and other related businesses	Executive Director of Unicom HK
Shao Guanglu	Unicom and its subsidiaries	Telecommunications business and other related businesses	Vice President of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Senior Vice President of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Senior Vice President of Unicom HK
	China Communications Services Corporation Limited ("CCSCL")	Telecommunications business and other related businesses	Non-Executive Director of CCSCL
Zhu Kebing	Unicom and its subsidiaries	Telecommunications business and other related businesses	Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Chief Financial Officer and Board Secretary of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Chief Financial Officer of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Note:

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

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

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

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

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

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

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

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

PERMITTED INDEMNITY

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

DONATIONS

During the year, the Group made donations for charitable and other purposes of approximately HK$4.7 million (2018: HK$2.6 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

1. Connected Transaction

On March 8, 2019, the Company (through its wholly-owned subsidiary) as purchaser and Ultimate Talent Limited ("UTL") as vendor entered into a sale and purchase agreement for the acquisition of the 2022 Bonds in the aggregate principal amount of US$70 million, as investment for the funds then held by the Group (the "Acquisition"). The consideration for the Acquisition was US$67,246,472.22, payable by the Company by way of cash upon completion. UTL was a company wholly-owned by Li Tzar Kai, Richard (a director of the Company and has interests in the Shares as disclosed under Part XV of the SFO and therefore a connected person of the Company) and accordingly an associate of a connected person of the Company. The Acquisition constituted a connected transaction for the Company under Chapter 14A of the Listing Rules and details of which were set out in the Company's announcement dated March 8, 2019.

2. Continuing Connected Transactions

During the year ended December 31, 2019, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of which are set out below in accordance with the Listing Rules.

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

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

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

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

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

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions *(continued)*

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

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

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

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

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

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

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

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

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

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

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

During 2019, PCCW Global Limited ("PCCWG"), an indirect wholly-owned subsidiary of HKT which in turn is a subsidiary of the Company, entered into two indefeasible right of use agreements with China Unicom (Hong Kong) Operations Limited, a subsidiary of the Unicom Group, relating to the grant of right to use the cable capacity available on PCCWG's network to the Unicom Group for a duration of 10 years. These contracts are not materially different in nature to the IRU Contracts.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions *(continued)*

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

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

Category	Approximate aggregate values for the financial year ended December 31, 2019 HK$'000	Annual caps for the Unicom Group for the financial year ended December 31, 2019 HK$'000
(1) Provision of data services by the Group to the Unicom Group	118,376	500,000
(2) Provision of data services by the Unicom Group to the Group	126,754	800,000
(3) Provision of systems integration services by the Group to the Unicom Group	33,318	400,000

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

Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC (the "Lease and Facility and Management Services"). Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is a normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate rental and service fees charged by CNC GD for the year ended December 31, 2019 was HK$19,303,661 which did not exceed the annual cap for the twelfth year of the 15-year term of HK$39,919,000.

The Unicom Transactions and the Lease and Facility and Management Services are collectively referred to as the "CU Transactions". The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year 2019.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions *(continued)*

B. Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the CU Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Company to the Stock Exchange.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2019 were entered into:

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

(ii) on normal commercial terms or better; and

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

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 5 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "**Connected Transaction and Continuing Connected Transactions**") under the Listing Rules, these transactions are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the financial year ended December 31, 2019 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 13, 2020

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

Opinion

What we have audited

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

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

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

Key Audit Matters

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

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

- Revenue recognition
- Impairment assessments for cash generating units ("CGUs") containing goodwill
- Income taxes

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to notes 6 and 7 to the consolidated financial statements*	
The Group recognized revenue of HK$37,521 million for the year ended December 31, 2019, including external revenue from HKT Limited ("HKT"), Media Business and Solutions Business of HK$31,332 million, HK$2,654 million and HK$2,522 million, respectively. The Group enters into bundled sale contracts with customers in which, apart from the provision of telecommunications, media and solutions services, the Group has certain other performance obligations to customers such as the delivery of handsets, equipment and gifts. Significant management's judgements were needed to appropriately identify the number of performance obligations included in the multiple-element arrangements, to estimate the stand-alone selling price of each performance obligation, and to allocate the total transaction prices from customers to each performance obligation of multiple-element arrangements based on its relative stand-alone selling price. Significant effort was spent auditing the revenue recognized by HKT and Media Business due to the large volume of transactions, the complexity of the systems used, the significant judgements involved in the identification of performance obligations and the estimation of the stand-alone selling price of each performance obligation to allocate the total transaction prices to multiple-element arrangements. The majority of revenue in Solutions Business is recognized over time using the input method based on the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period, including estimates of the contract costs incurred to date and the total estimated contract costs, required individual consideration and significant management's judgement.	Our procedures in relation to the judgements and estimates used in the recognition of revenue included: • Obtaining an understanding of and evaluating the internal controls, and validating key controls in place on revenue recognition; • Assessing the appropriateness of management's assessments on the identification of performance obligations based on the contractual agreements and our knowledge of the business; • Assessing the reasonableness of management's judgements and estimates used to determine the stand-alone selling price of each performance obligation and to allocate revenue to multiple-element arrangements with reference to observable market data; • Testing, on a sample basis, the revenue transactions by tracing the transactions from the billing systems to supporting documents, such as underlying invoices, contractual agreements and evidence of cash receipts; • Testing, on a sample basis, the calculation and allocation of total transaction prices to each performance obligation of multiple-element arrangements and the related journal entries posting; and • For revenue recognized over time, testing, on a sample basis, the amount of revenue recognized with regard to contract costs incurred to date and the total estimated contract costs, which were assessed for reasonableness with reference to supporting evidence. We found the judgements and estimates used in the recognition of revenue to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments for CGUs containing goodwill *Refer to note 20 to the consolidated financial statements* As at December 31, 2019, the Group had goodwill amounting to HK$18,344 million. Goodwill was allocated to CGUs, and the recoverable amount of each CGU was determined by management based on value-in-use calculation using cash flow projections. In carrying out the impairment assessments, significant management's judgements were used to appropriately identify CGUs and to determine the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates used in the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill in the current year.	Our procedures in relation to the judgements and assumptions used in the impairment assessments included: • Assessing the reasonableness of management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's businesses; • Assessing the value-in-use calculation methodology in accordance with HKAS 36 *Impairment of Assets*; • Assessing the reasonableness of the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, based on our knowledge of the business and the observable market data of the industry; • Comparing the data in the cash flow projections to the relevant CGUs' historical performance, financial budgets and forecasts, and assessing the reasonableness of the cash flow projections based on the key assumptions; and • Performing sensitivity analyses on the key assumptions to which the recoverable amounts are the most sensitive. We found the judgements and assumptions used in the impairment assessments to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes *Refer to notes 12 and 36 to the consolidated financial statements*	
The Group operates across several jurisdictions and is subject to Hong Kong and overseas taxes. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatments of certain matters. Significant judgements were used to estimate the outcome of these matters and the appropriate amount of current income tax liabilities. The Group recognized deferred income tax assets of HK$1,555 million related to available tax losses as at December 31, 2019. In assessing the amount of deferred income tax assets to be recognized, the Group has considered the future taxable profits and tax planning strategies.	Our procedures in relation to the judgements and assumptions used in the recognition of current income tax provisions and deferred income tax assets included: • Enquiring with management and assessing management's basis used to compute the current income tax liabilities and the estimated outcome of queries raised by relevant tax authorities; • Assessing the appropriateness of the current income tax computation for the current year, according to the tax rules in the respective jurisdictions; • Testing, on a sample basis, available tax losses to the relevant financial statements and tax assessments; and • Assessing the reasonableness of the recognition of deferred income tax assets and the future taxable profits by comparing the data in the future taxable profits projections to the historical performance and considering the reasonableness of the key assumptions, including revenue growth rates and EBITDA growth rates, based on our knowledge of the business and the observable market data of the industry. We found the judgements and assumptions used in the recognition of current income tax provisions and deferred income tax assets to be supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the PCCW Limited 2019 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, February 13, 2020

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

In HK$ million (except for earnings per share)	Note(s)	2018	**2019**
Revenue	6, 7	38,850	**37,521**
Cost of sales	9(b)	(20,642)	**(18,907)**
General and administrative expenses	9(c)	(12,970)	**(13,462)**
Other gains, net	8	643	**498**
Interest income		134	**86**
Finance costs	10	(1,899)	**(1,958)**
Share of results of associates		97	**54**
Share of results of joint ventures		(29)	**(21)**
Profit before income tax	6, 9	4,184	**3,811**
Income tax	12	(1,134)	**(941)**
Profit for the year		3,050	**2,870**
Profit attributable to:			
Equity holders of the Company		897	**681**
Non-controlling interests		2,153	**2,189**
		3,050	**2,870**
Earnings per share	14		
Basic		11.63 cents	**8.83 cents**
Diluted		11.62 cents	**8.82 cents**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

In HK$ million	2018	**2019**
Profit for the year	3,050	**2,870**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	(30)	**13**
Changes in fair value of equity instruments at fair value through other comprehensive income	(81)	**(54)**
	(111)	**(41)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
– exchange differences on translating foreign operations	(357)	**201**
Cash flow hedges:		
– effective portion of changes in fair value	(173)	**258**
– transfer from equity to consolidated income statement	34	**152**
Costs of hedging	46	**14**
	(450)	**625**
Other comprehensive (loss)/income for the year	(561)	**584**
Total comprehensive income for the year	2,489	**3,454**
Attributable to:		
Equity holders of the Company	425	**1,046**
Non-controlling interests	2,064	**2,408**
Total comprehensive income for the year	2,489	**3,454**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

In HK$ million	Note	2018 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2018		19,190	2,702	21,892
Total comprehensive income for the year				
Profit for the year		897	2,153	3,050
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations	33(a)	(30)	–	(30)
Changes in fair value of equity instruments at fair value through other comprehensive income	25	(81)	–	(81)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		(299)	(58)	(357)
Cash flow hedges:				
– effective portion of changes in fair value	31(e)	(106)	(67)	(173)
– transfer from equity to consolidated income statement	31(e)	17	17	34
Costs of hedging	31(e)	27	19	46
Other comprehensive loss		(472)	(89)	(561)
Total comprehensive income for the year		425	2,064	2,489
Transactions with equity holders				
Purchases of shares of PCCW Limited ("PCCW Shares") under share award scheme		(26)	–	(26)
Purchases of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under share award schemes		(20)	(10)	(30)
Employee share-based compensation	34(b)	83	13	96
Vesting of PCCW Shares and Share Stapled Units under share award schemes		(9)	9	–
Distributions for Share Stapled Units granted under share award schemes		(2)	(1)	(3)
Dividend paid in respect of the previous year	13	(1,635)	–	(1,635)
Dividend declared and paid in respect of the current year	13	(688)	–	(688)
Distributions/dividends declared and paid to non-controlling shareholders of subsidiaries		–	(2,416)	(2,416)
Total contributions by and distributions to equity holders		(2,297)	(2,405)	(4,702)
Acquisition of subsidiaries		(223)	151	(72)
Contribution from a non-controlling shareholder of a subsidiary		–	2	2
Total changes in ownership interests in subsidiaries that do not result in a loss of control		(223)	153	(70)
Total transactions with equity holders		(2,520)	(2,252)	(4,772)
At December 31, 2018		17,095	2,514	19,609

In HK$ million	Note	2019 Attributable to equity holders of the Company	2019 Non-controlling interests	2019 Total equity
At January 1, 2019		**17,095**	**2,514**	**19,609**
Total comprehensive income for the year				
Profit for the year		**681**	**2,189**	**2,870**
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations	33(a)	**13**	**–**	**13**
Changes in fair value of equity instruments at fair value through other comprehensive income	25	**(54)**	**–**	**(54)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		**184**	**17**	**201**
Cash flow hedges:				
– effective portion of changes in fair value	31(e)	**135**	**123**	**258**
– transfer from equity to consolidated income statement	31(e)	**78**	**74**	**152**
Costs of hedging	31(e)	**9**	**5**	**14**
Other comprehensive income		**365**	**219**	**584**
Total comprehensive income for the year		**1,046**	**2,408**	**3,454**
Transactions with equity holders				
Purchases of PCCW Shares under share award scheme		**(44)**	**–**	**(44)**
Purchases of Share Stapled Units under share award schemes		**(47)**	**(18)**	**(65)**
Employee share-based compensation	34(b)	**59**	**9**	**68**
Vesting of PCCW Shares and Share Stapled Units under share award schemes		**(3)**	**3**	**–**
Distributions/dividends for PCCW Shares and Share Stapled Units granted under share award schemes		**(6)**	**–**	**(6)**
Dividend paid in respect of the previous year	13	**(1,723)**	**–**	**(1,723)**
Dividend declared and paid in respect of the current year	13	**(708)**	**–**	**(708)**
Distributions/dividends declared and paid to non-controlling shareholders of subsidiaries		**–**	**(2,528)**	**(2,528)**
Total contributions by and distributions to equity holders		**(2,472)**	**(2,534)**	**(5,006)**
Acquisition of a subsidiary		**–**	**1**	**1**
Accretion on put option to the non-controlling shareholder of an indirect non-wholly owned subsidiary	38(b)	**(16)**	**–**	**(16)**
Changes in ownership interests in subsidiaries that do not result in a loss of control		**(115)**	**45**	**(70)**
Total changes in ownership interests in subsidiaries that do not result in a loss of control		**(131)**	**46**	**(85)**
Total transactions with equity holders		**(2,603)**	**(2,488)**	**(5,091)**
At December 31, 2019		**15,538**	**2,434**	**17,972**

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

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2019

In HK$ million	Note*	The Group 2018	The Group 2019	(Additional information) The Company 2018	(Additional information) The Company 2019
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	23,900	**27,805**	–	**–**
Right-of-use assets	16	4,175	**3,745**	–	**–**
Investment properties	17	3,517	**3,680**	–	**–**
Interests in leasehold land	18	385	**368**	–	**–**
Properties held for/under development	19	3,164	**2,922**	–	**–**
Goodwill	20	18,192	**18,344**	–	**–**
Intangible assets	21	10,996	**13,331**	–	**–**
Fulfillment costs		1,369	**1,385**	–	**–**
Customer acquisition costs		807	**771**	–	**–**
Contract assets		302	**349**	–	**–**
Interests in subsidiaries		–	**–**	18,808	**20,163**
Interests in associates	23	778	**1,183**	–	**–**
Interests in joint ventures	24	530	**497**	–	**–**
Financial assets at fair value through other comprehensive income	25	1,102	**124**	–	**–**
Financial assets at fair value through profit or loss	26	731	**817**	–	**–**
Derivative financial instruments	31	152	**284**	4	**–**
Deferred income tax assets	36	1,194	**1,089**	–	**–**
Other non-current assets	27	1,243	**1,333**	–	**–**
Restricted cash	28(b)	217	**–**	–	**–**
		72,754	**78,027**	18,812	**20,163**
Current assets					
Amounts due from subsidiaries		–	**–**	13,796	**17,588**
Sales proceeds held in stakeholders' accounts	28(a)	507	**506**	–	**–**
Properties under development/held for sale	19	770	**1,421**	–	**–**
Inventories	28(d)	1,280	**1,226**	–	**–**
Prepayments, deposits and other current assets	28(c)	3,748	**3,639**	16	**20**
Contract assets		2,690	**2,789**	–	**–**
Trade receivables, net	28(e)	4,799	**4,616**	–	**–**
Amounts due from related companies	5(c)	110	**116**	–	**–**
Derivative financial instruments	31	4	**6**	4	**–**
Tax recoverable		18	**18**	–	**–**
Restricted cash	28(b)	186	**709**	–	**–**
Short-term deposits		604	**486**	–	**–**
Cash and cash equivalents	39(c)	6,757	**5,336**	2,729	**1,004**
		21,473	**20,868**	16,545	**18,612**

In HK$ million	Note*	The Group 2018	The Group 2019	(Additional information) The Company 2018	(Additional information) The Company 2019
Current liabilities					
Short-term borrowings	28(f)	(608)	**(1,528)**	–	**–**
Trade payables	28(g)	(1,952)	**(2,746)**	–	**–**
Accruals and other payables		(6,681)	**(6,406)**	(11)	**(19)**
Amount payable to the Government under the Cyberport Project Agreement	30	(322)	**(325)**	–	**–**
Carrier licence fee liabilities	37	(173)	**(195)**	–	**–**
Amounts due to related companies	5(c)	(1)	**(3)**	–	**–**
Advances from customers		(355)	**(381)**	–	**–**
Contract liabilities		(1,856)	**(1,966)**	–	**–**
Lease liabilities		(1,608)	**(1,376)**	–	**–**
Current income tax liabilities		(1,036)	**(1,361)**	–	**–**
		(14,592)	**(16,287)**	(11)	**(19)**
Non-current liabilities					
Long-term borrowings	29	(49,307)	**(53,505)**	–	**(3,206)**
Amounts due to subsidiaries		–	**–**	(3,206)	**(3,308)**
Derivative financial instruments	31	(263)	**(72)**	(82)	**(21)**
Deferred income tax liabilities	36	(3,674)	**(3,933)**	–	**–**
Defined benefit retirement schemes liability	33(a)	(135)	**(120)**	–	**–**
Carrier licence fee liabilities	37	(357)	**(527)**	–	**–**
Contract liabilities		(1,010)	**(1,001)**	–	**–**
Lease liabilities		(2,871)	**(2,717)**	–	**–**
Other long-term liabilities	38	(2,409)	**(2,761)**	–	**–**
		(60,026)	**(64,636)**	(3,288)	**(6,535)**
Net assets		19,609	**17,972**	32,058	**32,221**

In HK$ million	Note*	The Group 2018	The Group 2019	(Additional information) The Company 2018	(Additional information) The Company 2019
CAPITAL AND RESERVES					
Share capital	32	12,954	**12,954**	12,954	**12,954**
Reserves	35	4,141	**2,584**	19,104	**19,267**
Equity attributable to equity holders of the Company		17,095	**15,538**	32,058	**32,221**
Non-controlling interests		2,514	**2,434**	–	**–**
Total equity		19,609	**17,972**	32,058	**32,221**

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company (the "Board") on February 13, 2020 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2018 and 2019 is presented only as additional information to these consolidated financial statements. The Company statement of financial position as at December 31, 2019 as presented in note 4 was approved and signed by the directors.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

In HK$ million	Note	2018	**2019**
NET CASH GENERATED FROM OPERATING ACTIVITIES	39(a)	6,545	**11,133**
INVESTING ACTIVITIES			
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries		377	**–**
Purchases of property, plant and equipment		(3,834)	**(4,956)**
Proceeds from disposals of property, plant and equipment		3	**5**
Payment for investment properties		(176)	**(10)**
Additions of intangible assets		(3,582)	**(4,466)**
Settlement of considerations in respect of business combinations in prior years		(27)	**(13)**
Investment in a joint venture		(30)	**(35)**
Investment in an associate		–	**(403)**
Net outflow of cash and cash equivalents in respect of business combinations		(46)	**(227)**
Loans to an associate		(12)	**(46)**
Loans to a joint venture		(72)	**(50)**
Repayment of loan from an associate		–	**34**
Repayment of loan from a joint venture		15	**–**
Proceeds from disposal of an associate		–	**13**
Purchases of financial assets at fair value through profit or loss		(79)	**(74)**
Purchase of a financial asset at fair value through other comprehensive income		–	**(47)**
Proceeds from disposal of financial assets at fair value through profit or loss		597	**37**
Proceeds from disposal of a financial asset at fair value through other comprehensive income		–	**971**
Purchase of a foreign currency option	39(b)	(4)	**(6)**
Proceeds from termination of a foreign currency option	39(b)	–	**8**
Dividends received from an associate		7	**8**
Dividends received from financial assets at fair value through other comprehensive income		44	**49**
Dividend received from financial assets at fair value through profit or loss		1	**–**
Decrease in short-term deposits with maturity more than three months		1,025	**118**
NET CASH USED IN INVESTING ACTIVITIES		(5,793)	**(9,090)**

In HK$ million	Note	2018	**2019**
FINANCING ACTIVITIES			
New borrowings raised	39(b)	15,210	**22,210**
Finance costs paid	39(b)	(1,299)	**(1,410)**
Repayments of borrowings	39(b)	(12,543)	**(16,392)**
Purchase of guaranteed notes	39(b)	–	**(528)**
Payment for lease liabilities (including interest)	39(b)	(2,013)	**(2,013)**
Dividends paid to shareholders of the Company		(2,320)	**(2,431)**
Distributions/dividends paid to non-controlling shareholders of subsidiaries		(2,416)	**(2,528)**
Contribution from a non-controlling shareholder of a subsidiary		2	**–**
Consideration paid to acquire non-controlling interests of a subsidiary	46(a)	–	**(62)**
Increase in restricted cash		(221)	**(274)**
NET CASH USED IN FINANCING ACTIVITIES		(5,600)	**(3,428)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,848)	**(1,385)**
Exchange differences		(33)	**(36)**
CASH AND CASH EQUIVALENTS			
Beginning of year		11,638	**6,757**
End of year	39(c)	6,757	**5,336**

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

1 GENERAL INFORMATION

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

The following new or amended Hong Kong Financial Reporting Standards (the "new or amended HKFRSs") are mandatory for the first time for the financial year beginning January 1, 2019, but have no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 19 (2011) (Amendments), *Employee Benefits*
- HKAS 28 (2011) (Amendments), *Investments in Associates and Joint Ventures*
- HKFRS 9 (2014) (Amendments), *Financial Instruments*
- HK(IFRIC) – Int 23, *Uncertainty over Income Tax Treatments*
- Annual Improvements to HKFRSs 2015-2017 Cycle issued in February 2018 by the HKICPA

The Group has not early adopted any new or amended HKFRSs that are not yet effective for the current accounting period, details of which are set out in note 47.

The consolidated financial statements for the year ended December 31, 2019 comprise the financial statements of the Group, and the Group's interests in associates and joint ventures.

The consolidated statements of financial position for the years ended December 31, 2018 and 2019 include additional information about the Company statement of financial position. The Company statement of financial position as at December 31, 2019 presented in note 4, which was prepared in accordance with the requirements of Part 1 "Accounting Disclosures" of Schedule 4 to the Hong Kong Companies Ordinance (Cap. 622), was approved and signed by the directors.

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

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

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

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

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

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

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

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

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

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

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

c. Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d. Associates

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

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

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

d. Associates *(continued)*

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

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

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

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

e. Joint arrangements

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

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

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

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

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

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

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

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

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

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

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

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

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

f. Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful life
Exchange equipment	5 to 25 years
Transmission plant	5 to 40 years
Other plant and equipment	1 to 20 years

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

g. Investment properties

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

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

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

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

g. Investment properties *(continued)*

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

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

i. Assets leased to the Group

Leases are initially recognized as a right-of-use asset/interest in leasehold land and corresponding liability, where applicable, at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Interest in leasehold land is amortized on a straight-line basis over the lease term, except where the property is classified as an investment property (see note 2(g)) or property under development/held for sale/held for development (see note 2(i)).

The Group has elected the practical expedient not to separate lease and non-lease components of certain class of underlying assets and account for whole as a single lease component in the measurement of lease liabilities and right-of-use assets.

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

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

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

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

h. Leased assets *(continued)*

ii. Assets leased out by the Group

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

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

i. Properties under development/held for sale/held for development

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

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

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

Properties held for sale represent completed properties available for sale which are classified under current assets.

j. Goodwill

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

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

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

k. Intangible assets (other than goodwill)

i. Carrier licences

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

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

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

ii. Capitalized programme costs

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

iii. Software

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

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

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

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

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

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

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

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

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

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

iv. Other intangible assets

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

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

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

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

l. Fulfillment costs

Direct costs incurred in fulfilling a contract with a customer, which mainly comprise setup and related costs in respect of the Group's telecommunications and media services, are capitalized as an asset to the extent that the cost generates or enhances resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Fulfillment costs are amortized on a straight-line basis over the expected life of the customer contract.

m. Customer acquisition costs

Incremental costs incurred to obtain a contract with a customer, which mainly comprise sales commission, are capitalized as customer acquisition costs if the Group expects to recover those costs. Costs of obtaining a contract are amortized on a systematic basis over the expected life of the customer contract.

n. Contract assets/liabilities

Customer pays according to a pre-agreed payment schedule. If the performance obligations fulfilled by the Group exceed the total non-refundable payments received and unconditional rights to contract consideration to date, a contract asset is recognized. If the total non-refundable payments received and unconditional rights to contract consideration to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

Advances from customers represent refundable customer advances, please refer to note 2(v) for the accounting policies.

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

o. Investments in debt and equity securities

Classification

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

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

– those to be measured at amortized cost.

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

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

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

Recognition and derecognition

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

Initial measurement

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

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

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

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

Subsequent measurement

Debt instruments

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

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

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

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

Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment, any balance within the financial assets at FVOCI reserve for these equity investments is reclassified to retained profits. Dividends from such investments continue to be recognized in the consolidated income statement as other gains/(losses), net when the Group's right to receive payments is established.

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

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

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

p. Impairment of assets

i. Investments in debt instruments and trade and other receivables

The Group assesses on forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost or FVOCI, and trade and other receivables carried at amortized cost.

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

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of the borrower in the Group and changes in the operating results of the borrower.

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

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

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

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

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

p. Impairment of assets *(continued)*

ii. Impairment of other assets

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

– property, plant and equipment;

– right-of-use assets;

– interests in leasehold land;

– properties under development/held for sale/held for development;

– fulfillment costs;

– customer acquisition costs;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

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

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

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

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

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

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

p. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

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

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

q. Derivative financial instruments

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

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

r. Hedging

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

i. Cash flow hedges

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

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

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

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

r. Hedging *(continued)*

i. Cash flow hedges *(continued)*

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

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

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

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

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

ii. Fair value hedges

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

s. Inventories

Inventories consist of purchased parts and materials, finished goods and consumable inventories.

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

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

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

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

t. Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognized at fair value. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 2(p)(i)).

u. Cash and cash equivalents

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

v. Trade and other payables

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

w. Borrowings

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

x. Provisions and contingent liabilities

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

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

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

y. Revenue recognition

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

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Group's activities. Revenue is recognized when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time.

The Group often enters into bundled sale contracts with customers in which, apart from the provision of telecommunications, media, solutions and other services, the Group has certain other performance obligations to customers such as the delivery of handsets, equipment, gifts and reward points from the Group's customer loyalty programme offering a variety of goods and services ("Reward Points"). When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The costs of respective handsets, equipment and gifts delivered are recognized as cost of sales when the corresponding revenue is recognized.

A financing component, if any, might exist when timing of the payment for goods by the customers, differs from the timing of satisfaction of the performance obligation. Such financing component is not significant to the Group.

i. Telecommunications

Telecommunications services comprise local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers.

Local telephony, local data and broadband, international telecommunications and mobile businesses earn revenue primarily by providing access to and usage of the telecommunications network locally and internationally. As part of the bundled service offerings, the Group also delivers handsets, equipment, gifts and Reward Points, which are considered as separate performance obligations.

For the telecommunications services, revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs and is based on the output method, either as the service allowance units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of services to the customer. For service plan based on usage, where monthly usage exceeds the allowance, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognized when the customer exercises the option. Income from other telecommunications services are recognized when services are rendered. Customers are invoiced in advance on a monthly basis or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

For the sales of the handsets, equipment and gifts, revenue is generally recognized when control passes to the customer, being when the products are delivered to and accepted by the customer. The customer has full discretion over the handsets, equipment and gifts and there are no unfulfilled obligations that can affect the customers' acceptance of those goods. Customers are invoiced immediately or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

When the Reward Points are awarded to the members, such revenue at their relative stand-alone selling price is deferred as a liability until the Reward Points are redeemed. Expected breakage, referring to Reward Points that are expected to expire, is recognized as revenue based on assumptions such as historical experience, future redemption pattern and programme design.

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

y. Revenue recognition *(continued)*

ii. Media

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

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

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

Customers are invoiced in advance on a monthly basis or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

iii. Solutions

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

Revenue from Solutions services is recognized over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Input method is used to measure the progress as it depicts the Group's performance in transferring the control of the asset. The progress is measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. Customers make settlement periodically throughout the contract period according to the pre-agreed payment schedule. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

iv. Properties

Revenue from sales of properties is recognized at a point in time when the customer obtains control of the completed property, which is typically when the property is legally or physically transferred to the customer. The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred.

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

v. Commission income

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

z. Interest income

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

aa. Dividend income

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

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

ab. Borrowing costs

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

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

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

ac. Cost of sales and general and administrative expenses

General and administrative expenses represent operating costs incurred other than cost of sales. Cost of sales mainly includes cost of inventories/properties sold, connectivity costs and staff costs relating to sales; while general and administrative expenses mainly include depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of land lease premium, amortization of intangible assets, amortization of fulfillment costs, amortization of customer acquisition costs, impairment loss for trade receivables and other staff costs.

ad. Income tax

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

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

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

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

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

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

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

ad. Income tax *(continued)*

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

ae. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

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

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

ae. Employee benefits *(continued)*

iii. Share-based payments

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

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

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

The cost of Share Stapled Units purchased from the open market under the PCCW Purchase Scheme and the issue price of newly issued Share Stapled Units under the PCCW Subscription Scheme are recognized in equity and non-controlling interests. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity is transferred to the employee share-based compensation reserve with the difference recognized in equity and non-controlling interests.

iv. Termination benefits

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

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

af. Share-based payment transactions with cash alternatives

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

ag. Translation of foreign currencies

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

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

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

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

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

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

ah. Related parties

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

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

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

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

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

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

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

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

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

ai. Segment reporting

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

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, 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. Inter-segment transactions are eliminated in full in preparing the consolidated financial statements.

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

aj. Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 20, 33(a) and 41 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit retirement schemes liability and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

i. Impairment of assets (other than investments in debt instruments and trade and other receivables)

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

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- properties held for/under development;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

ii. Revenue recognition

Under certain arrangements, apart from the provision of telecommunications, media, solutions and other services, the Group has certain other performance obligations to customers such as the delivery of handsets, equipment, gifts and Reward Points. When such multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The Group is required to exercise considerable judgement in relation to estimating the stand-alone selling price.

Revenue from Solutions services is recognized over time as the Group's performance creates or enhances an asset that the customer controls. Input method is used to measure the progress as it depicts the Group's performance in transferring the control of the asset. The progress is measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. The Group is required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

iii. Deferred income tax

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

iv. Current income tax

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

v. Estimated valuation of investment properties

The best evidence of fair value is the current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected capitalization rate, market price and market rent in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different capitalization rate, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2019, the fair value of the investment properties was HK$3,680 million (2018: HK$3,517 million).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

vi. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

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

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

vii. Lease term and discount rate determination

In determining the lease term, management considers facts and circumstances such as conditions of the Group's existing leases, future technology changes, business development and the Group's strategies, that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows are not included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. As at December 31, 2019, potential future undiscounted cash outflows of HK$2,291 million have not been included in the lease liabilities because it is not reasonably certain that the lease will be extended (or not terminated).

In determining the discount rate, the Group is required to exercise considerable judgement by taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the lease modification (if any).

viii. Value of unlisted securities

The fair value of financial instruments that are not traded in active market is individually determined at the end of each reporting period by management based on market value assessment taking into consideration of portfolio statements, if any. Fair value is determined using various valuation techniques such as discounted cash flow analysis. Note 41(e) contains details of key assumptions used.

4 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK$ million	Note	2018	**2019**
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		18,808	**20,163**
Derivative financial instruments		4	**–**
		18,812	**20,163**
Current assets			
Amounts due from subsidiaries		13,796	**17,588**
Prepayments, deposits and other current assets		16	**20**
Derivative financial instruments		4	**–**
Cash and cash equivalents		2,729	**1,004**
		16,545	**18,612**
Current liabilities			
Accruals and other payables		(11)	**(19)**
		(11)	**(19)**
Non-current liabilities			
Long-term borrowings		–	**(3,206)**
Amounts due to subsidiaries		(3,206)	**(3,308)**
Derivative financial instruments		(82)	**(21)**
		(3,288)	**(6,535)**
Net assets		32,058	**32,221**
CAPITAL AND RESERVES			
Share capital		12,954	**12,954**
Reserves	35	19,104	**19,267**
Total equity		32,058	**32,221**

Approved and authorized for issue by the Board on February 13, 2020 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

5 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note	2018	**2019**
Telecommunications service fees, consultancy service charges, facility management service charges and interest income received or receivable from joint ventures	a	49	**50**
System integration service fees, consultancy service charges and interest income received or receivable from associates	a	15	**8**
Telecommunications service fees, system integration service fees and data center hosting service fees received or receivable from a substantial shareholder	a	127	**110**
Telecommunications service fees, equipment purchase costs, outsourcing fees and rental charges paid or payable to joint ventures	a	324	**305**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	105	**115**
Telecommunications service fees paid or payable to an associate	a	6	**–**
Telecommunications service fees, connectivity service fees, equipment sales, insurance premium, rental income, consultancy service charges, system integration services fees and other costs recharge received or receivable from related parties under a common shareholder with the Company	a	69	**81**
Insurance premium and fronting service fees paid or payable to related parties under a common shareholder with the Company	a	19	**13**
Purchase of guaranteed notes from a related company	a	–	**528**
Key management compensation	b	100	**88**

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

b. Details of key management compensation

In HK$ million	2018	**2019**
Salaries and other short-term employee benefits	69	**66**
Share-based compensation	27	**19**
Post-employment benefits	4	**3**
	100	**88**

c. Balances with related companies

Other than as specified in notes 23 and 24 and certain unsecured loans included in the amounts due from related companies totaling HK$19 million (2018: HK$9 million) which bear interest at 3% per annum (2018: same) and are repayable within 1 year (2018: same), the other amounts due from/(to) related companies as at December 31, 2018 and 2019 are unsecured, non-interest bearing, and have no fixed repayment terms.

6 SEGMENT INFORMATION

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

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

– HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

– Media Business includes interactive pay-TV services and OTT digital media entertainment services in Hong Kong, the Asia Pacific region, and other parts of the world. The Group also operates a domestic free television service in Hong Kong.

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

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

6 SEGMENT INFORMATION *(CONTINUED)*

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

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

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

In HK$ million	2018							
	Reportable segments						Other#	Consolidated
	HKT	Media Business	Solutions Business	PCPD	Eliminations	Total		
REVENUE								
External revenue	33,665	2,471	2,417	297	–	38,850	–	38,850
Inter-segment revenue	1,522	1,497	1,676	3	(4,698)	–	–	–
Total revenue	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
External revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	7,422	170	217	–	–	7,809	–	7,809
Over time	26,185	2,301	2,200	160	–	30,846	–	30,846
External revenue from other sources:								
Rental income	58	–	–	137	–	195	–	195
	33,665	2,471	2,417	297	–	38,850	–	38,850
RESULTS								
EBITDA	12,558	(215)	1,080	(165)	(430)	12,828	(593)	12,235
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	2,588	360	142	810	–	3,900	2	3,902

6 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million	2019							
	Reportable segments						Other#	Consolidated
	HKT	Media Business	Solutions Business	PCPD	Eliminations	Total		
REVENUE								
External revenue	31,332	2,654	2,522	1,013	–	37,521	–	37,521
Inter-segment revenue	1,771	1,361	1,696	2	(4,830)	–	–	–
Total revenue	33,103	4,015	4,218	1,015	(4,830)	37,521	–	37,521
External revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	5,304	336	60	648	–	6,348	–	6,348
Over time	25,967	2,318	2,462	213	–	30,960	–	30,960
External revenue from other sources:								
Rental income	61	–	–	152	–	213	–	213
	31,332	2,654	2,522	1,013	–	37,521	–	37,521
RESULTS								
EBITDA	12,817	(133)	1,014	42	(850)	12,890	(509)	12,381
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	2,702	213	297	1,830	–	5,042	–	5,042

Other primarily comprises corporate support functions.

6 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2018	**2019**
Total segment EBITDA	12,235	**12,381**
Loss on disposal of property, plant and equipment, net	(6)	**(7)**
Depreciation and amortization	(6,991)	**(7,222)**
Other gains, net	643	**498**
Interest income	134	**86**
Finance costs	(1,899)	**(1,958)**
Share of results of associates and joint ventures	68	**33**
Profit before income tax	4,184	**3,811**

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

In HK$ million	2018	**2019**
Hong Kong (place of domicile)	32,185	**30,592**
Mainland and other parts of China	960	**756**
Japan	226	**893**
Others	5,479	**5,280**
	38,850	**37,521**

As at December 31, 2019, the total of non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK$61,013 million (2018: HK$56,983 million), and the total of these non-current assets located in other countries was HK$14,363 million (2018: HK$12,229 million).

7 REVENUE

In HK$ million	2018	**2019**
Revenue from contracts with customers	38,655	**37,308**
Revenue from other sources: rental income	195	**213**
	38,850	**37,521**

Included in the revenue from contracts with customers was revenue from properties sold of HK$620 million for the year ended December 31, 2019 (2018: nil).

a. Revenue recognition in relation to contract liabilities

In HK$ million	2018	**2019**
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,538	**1,856**

b. Unsatisfied long-term fixed-price contracts

In HK$ million	2018	**2019**
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31,	24,635	**26,409**

As at December 31, 2019, management expected that 53% and 22% (2018: 51% and 26%) of the transaction price allocated to the unsatisfied long-term fixed-price contracts would be recognized as revenue during the first and second year respectively after the end of the reporting period. The remaining 25% (2018: 23%) would be recognized as revenue in the periods afterwards. The amount disclosed above does not include unsatisfied performance obligation that is related to the Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

8 OTHER GAINS, NET

In HK$ million	2018	**2019**
Gain on disposal of subsidiaries	276	**–**
Fair value movement of derivative financial instruments	15	**12**
Fair value gains on financial assets at FVPL *(note 26)*	300	**49**
Dividend income from financial assets at FVOCI	44	**49**
Dividend income from financial assets at FVPL	1	**–**
Provision for impairment of interests in joint ventures	(2)	**–**
Fair value gain on Network Capacity Access Rights *(note a)*	–	**369**
Net gain on purchase of guaranteed notes *(note 29(h))*	–	**19**
Loss on disposal of an associate	–	**(2)**
Others	9	**2**
	643	**498**

a. In May 2017, the Group completed the transaction to sell the entire issued share capital of Transvision Investments Limited (the "Transaction"), part of the operation of the wireless broadband and related business component in the United Kingdom (the "UK Component"), to an independent third party (the "Buyer") for GBP250 million cash (equivalent to approximately HK$2,509 million) and two restricted use network capacity access instruments issued by the Buyer with a total face value of GBP50 million (equivalent to approximately HK$502 million), representing the corresponding value of capacity access on the mobile network operated by the Buyer in the United Kingdom (the "Network Capacity Access Rights").

The remaining operation of the UK Component ceased in 2018. Therefore, the results, including the disposal gain on the Transaction, of the UK Component was presented as discontinued operation in the consolidated income statement for the year ended December 31, 2018.

No value of the Network Capacity Access Rights had been recognized by the Group up to December 31, 2018 due to the uncertainty of potential market condition and the range of potential values being too wide for an amount to be measured reliably. During the first half of the year ended December 31, 2019, clarity on the fair value of the Network Capacity Access Rights has substantially improved. Accordingly, a fair value gain of HK$369 million was recognized as other gains, net in the consolidated income statement.

During the second half of the year ended December 31, 2019, half of the Network Capacity Access Rights was sold to an independent third party.

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2018	**2019**
Retirement costs for directors	3	**3**
Retirement costs for other staff under defined contribution retirement scheme	392	**403**
Retirement costs for other staff under defined benefit retirement schemes	2	**3**
	397	**409**
Share-based compensation expenses	96	**68**
Salaries, bonuses and other benefits	4,280	**4,041**
	4,773	**4,518**
Less: staff costs included in cost of sales	(2,318)	**(2,289)**
Staff costs included in general and administrative expenses	2,455	**2,229**

b. Cost of sales

In HK$ million	2018	**2019**
Cost of inventories sold	7,754	**4,837**
Cost of properties sold	–	**408**
Connectivity costs	6,235	**6,451**
Staff costs	2,318	**2,289**
Provision for/(write-back of provision for) inventory obsolescence, net	10	**(2)**
Others	4,325	**4,924**
	20,642	**18,907**

9 PROFIT BEFORE INCOME TAX *(CONTINUED)*

Profit before income tax was stated after charging and crediting the following: *(continued)*

c. General and administrative expenses

In HK$ million	2018	**2019**
Staff costs	2,455	**2,229**
Impairment loss for trade receivables	251	**318**
Depreciation of property, plant and equipment	1,588	**1,450**
Depreciation of right-of-use assets – land and buildings	1,614	**1,663**
Depreciation of right-of-use assets – network capacity and equipment	308	**252**
Amortization of land lease premium – interests in leasehold land	18	**17**
Amortization of intangible assets	1,996	**2,304**
Amortization of fulfillment costs	422	**500**
Amortization of customer acquisition costs	1,045	**1,036**
Loss on disposal of property, plant and equipment, net	6	**7**
Exchange gains, net	(18)	**(197)**
Less: cash flow hedges: transferred from equity	34	**160**
Less: fair value hedges: transferred to finance costs	(5)	**13**
Remuneration to the Company's auditor		
– audit and audit-related services	29	**32**
– non-audit services	9	**4**
Remuneration to other auditors		
– audit and audit-related services	11	**13**
– non-audit services	3	**4**
Short-term leases expenses	89	**109**
Others	3,115	**3,548**
	12,970	**13,462**

10 FINANCE COSTS

In HK$ million	2018	**2019**
Interest expense, excluding interest expense on lease liabilities	1,794	**2,022**
Interest expense on lease liabilities	130	**136**
Notional accretion on carrier licence fee liabilities	44	**35**
Other finance costs	40	**40**
Fair value hedges: exchange difference transferred from exchange losses/(gains), net	5	**(13)**
Adjustment of borrowings attributable to foreign currency risk	(5)	**13**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk	(20)	**(56)**
Hedge ineffectiveness: interest rate swap contracts – cash flow hedges for interest rate risk	(2)	**(7)**
Hedge ineffectiveness: cross currency swap contracts – fair value hedges for interest rate risk and foreign currency risk	(2)	**(2)**
Unwind of foreign exchange forward contracts	–	**(8)**
Impact of re-designation of fair value hedges	16	**16**
	2,000	**2,176**
Interest capitalized in property, plant and equipment, properties under development and intangible assets *(note a)*	(101)	**(218)**
	1,899	**1,958**

a. The capitalization rate used to determine the amount of interest eligible for capitalization in property, plant and equipment, properties under development and intangible assets ranged from 2.97% to 4.29% for the year ended December 31, 2019 (2018: 3.05% to 4.61%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

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

In HK$ million	2018															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses[2]		Retirement schemes contributions		Share-based compensation[3]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	–	–	–	–	–	–	0.04	–	–	–	–	–	–	–	0.04	–
Srinivas Bangalore Gangaiah	–	–	10.93	–	1.72	–	0.11	–	5.02	–	1.13	–	9.17	–	28.08	–
Hui Hon Hing, Susanna	–	–	7.84	–	3.91	–	0.03	–	7.69	–	0.94	–	9.52	–	29.93[4]	–
Lee Chi Hong, Robert	–	–	–	7.68	–	3.29	–	0.10	–	–	–	1.15	–	–	–	12.22
Non-executive directors																
Lu Yimin[5]	0.34[6]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.34	–
Li Fushen	0.47[7]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.47	–
Shao Guanglu	0.24[8]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Tse Sze Wing, Edmund	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Wei Zhe, David	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Zhu Kebing[9]	0.14[10]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.14	–
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po[11]	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Aman Mehta	0.95[12]	–	–	–	0.53	–	–	–	–	–	–	–	–	–	1.48	–
Frances Waikwun Wong	0.59[13]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.59	–
Bryce Wayne Lee	0.24	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.77	–
Lars Eric Nils Rodert	0.24	–	–	–	0.40	–	–	–	–	–	–	–	–	–	0.64	–
David Christopher Chance	0.36[14]	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.89	–
David Lawrence Herzog	0.24	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.77	–
	4.53	–	18.77	7.68	8.15	3.29	0.18	0.10	12.71	–	2.07	1.15	18.69	–	65.10	12.22

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

a. Directors' emoluments – cash and cash equivalents paid/payable *(continued)*

Notes:

1 Benefits in kind include medical insurance premium and club membership fees, where applicable.

2 Bonus amounts shown above represent the 2017 bonuses that were paid in 2018. It was determined by reference to the Group and the individual performance during the year ended December 31, 2017.

3 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2018 for respective directors under the share award schemes.

4 Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer and the group managing director respectively.

5 Resigned as a non-executive director with effect from September 18, 2018.

6 Fees receivable as a non-executive director of both the Company and HKT in 2018 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

7 Fees receivable as a non-executive director of both the Company and HKT in 2018 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

8 Fee receivable as a non-executive director in 2018 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Shao Guanglu and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

9 Appointed as a non-executive director with effect from September 18, 2018.

10 Fees receivable as a non-executive director of both the Company and HKT in 2018 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhu Kebing and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

11 Resigned as an independent non-executive director with effect from December 31, 2018.

12 Includes HK$118,450 fee as Chairman of Nomination Committee, HK$118,450 fee as Chairman of Audit Committee and HK$118,450 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.

13 Includes fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.

14 Includes HK$118,450 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

a. Directors' emoluments – cash and cash equivalents paid/payable *(continued)*

In HK$ million	2019															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses[2]		Retirement schemes contributions		Share-based compensation[3]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	-	-	-	-	-	-	0.04	-	-	-	-	-	-	-	0.04	-
Srinivas Bangalore Gangaiah	-	-	11.01	-	1.80	-	0.13	-	1.16	-	1.14	-	11.31	-	26.55	-
Hui Hon Hing, Susanna	-	-	8.67	-	6.33	-	0.05	-	9.10	-	1.04	-	8.73	-	33.92[4]	-
Lee Chi Hong, Robert	-	2.59	-	3.57	-	1.18	-	0.13	-	-	-	0.39	-	-	-	7.86
Non-executive directors																
Li Fushen	0.50[5]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.50	-
Shao Guanglu	0.25[6]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.25	-
Zhu Kebing	0.50[7]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.50	-
Tse Sze Wing, Edmund	0.25	-	-	-	-	-	-	-	-	-	-	-	-	-	0.25	-
Wei Zhe, David	0.25	-	-	-	-	-	-	-	-	-	-	-	-	-	0.25	-
Independent non-executive directors																
Aman Mehta	1.00[8]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	1.53	-
Frances Waikwun Wong	0.62[9]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.62	-
Bryce Wayne Lee	0.25	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.65	-
Lars Eric Nils Rodert	0.25	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.78	-
David Christopher Chance	0.37[10]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.90	-
David Lawrence Herzog	0.25	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.65	-
	4.49	2.59	19.68	3.57	10.52	1.18	0.22	0.13	10.26	-	2.18	0.39	20.04	-	67.39	7.86

Notes:

1. Benefits in kind include medical insurance premium and club membership fees, where applicable.
2. Bonus amounts shown above represent the 2018 bonuses that were paid in 2019. It was determined by reference to the Group and the individual performance during the year ended December 31, 2018.
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 2019 for respective directors under the share award schemes.
4. Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer and the group managing director respectively.
5. Fees receivable as a non-executive director of both the Company and HKT in 2019 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
6. Fee receivable as a non-executive director in 2019 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Shao Guanglu and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
7. Fees receivable as a non-executive director of both the Company and HKT in 2019 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhu Kebing and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8. Includes HK$124,400 fee as Chairman of Nomination Committee, HK$124,400 fee as Chairman of Audit Committee and HK$124,400 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$248,800 and HK$124,400 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.
9. Includes fees of HK$248,800 and HK$124,400 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.
10. Includes HK$124,400 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

11 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, 2019 (2018: nil).

c. Directors' retirement benefits

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2019 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2018: 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, 2019 (2018: nil).

d. Directors' termination benefits

No payments or benefits in respect of the termination of directors' services were paid to or receivable by the directors during the year ended December 31, 2019 (2018: 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, 2019 (2018: nil).

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

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities during the year ended December 31, 2019 (2018: nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year ended December 31, 2019 (2018: nil).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

h. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2018: two) are directors of the Company whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2018: three) non-director individuals for the year ended December 31, 2019, were as follows:

In HK$ million	2018	**2019**
Salaries, share-based compensation, allowances and benefits in kind	76	**26**
Bonuses	37	**11**
Retirement scheme contributions	2	**2**
	115	**39**

ii. The emoluments of the three (2018: three) non-director individuals for the year ended December 31, 2019 were within the following emolument ranges:

	Number of individuals	
	2018	**2019**
HK$10,000,001 – HK$10,500,000	–	**2**
HK$18,500,001 – HK$19,000,000	–	**1**
HK$19,500,001 – HK$20,000,000	1	**–**
HK$25,000,001 – HK$25,500,000	1	**–**
HK$70,000,001 – HK$70,500,000	1	**–**
	3	**3**

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2018	**2019**
Hong Kong profits tax		
– provision for current year	623	**505**
– over provision in respect of prior years	(31)	**(10)**
Overseas tax		
– provision for current year	87	**105**
– over provision in respect of prior years	(31)	**(6)**
Movement of deferred income tax *(note 36(a))*	486	**347**
	1,134	**941**

Hong Kong profits tax is provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year.

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

12 INCOME TAX *(CONTINUED)*

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

In HK$ million	2018	2019
Profit before income tax	4,184	**3,811**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2018: 16.5%)	690	**629**
Effect of different tax rates of subsidiaries operating overseas	(13)	**43**
Income not subject to tax	(109)	**(114)**
Expenses not deductible for tax purposes	229	**284**
Tax losses not recognized	447	**375**
Over provision in respect of prior years, net	(62)	**(16)**
Utilization of previously unrecognized tax losses	(53)	**(50)**
Recognition of tax losses	(18)	**–**
Recognition of previously unrecognized temporary differences	34	**(72)**
Net income of associates and joint ventures not subject to tax	(11)	**(5)**
Corporate income tax incentives	–	**(133)**
Income tax expense	1,134	**941**

13 DIVIDENDS

In HK$ million	2018	2019
Interim dividend declared and paid in respect of the current year of 9.18 HK cents (2018: 8.91 HK cents) per ordinary share	688	**709**
Less: dividend for PCCW Shares held by share award schemes	(1)	**(1)**
	687	**708**
Final dividend declared in respect of the previous financial year, approved and paid during the year of 22.33 HK cents (2018: 21.18 HK cents) per ordinary share	1,635	**1,724**
Less: dividend for PCCW Shares held by share award schemes	(2)	**(1)**
	1,633	**1,723**
	2,320	**2,431**
Final dividend proposed after the end of the reporting period of 23 HK cents (2018: 22.33 HK cents) per ordinary share *(note a)*	1,724	**1,776**

a. Final dividend proposed after the end of the reporting period is not recognized as a liability as at the end of the reporting period.

14 EARNINGS PER SHARE

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

	2018	**2019**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	897	**681**
Number of shares		
Weighted average number of ordinary shares	7,719,638,249	**7,719,638,249**
Effect of PCCW Shares held under the Company's share award schemes	(8,515,434)	**(6,023,024)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,711,122,815	**7,713,615,225**
Effect of PCCW Shares awarded under the Company's share award schemes	9,104,240	**7,724,189**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,720,227,055	**7,721,339,414**

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million			2018			
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,784	15,227	21,193	15,194	2,605	56,003
Additions	36	491	280	725	2,370	3,902
Additions upon business combinations	2	–	–	2	–	4
Disposal of interests in subsidiaries	(62)	–	–	–	–	(62)
Transfers	–	104	312	702	(1,118)	–
Disposals	–	(240)	(26)	(258)	–	(524)
Exchange differences	6	(21)	(66)	(29)	–	(110)
End of year	1,766	15,561	21,693	16,336	3,857	59,213
Accumulated depreciation and impairment						
Beginning of year	621	10,538	11,715	11,448	–	34,322
Charge for the year	48	394	481	665	–	1,588
Disposal of interests in subsidiaries	(10)	–	–	–	–	(10)
Disposals	–	(240)	(26)	(249)	–	(515)
Exchange differences	1	(17)	(27)	(29)	–	(72)
End of year	660	10,675	12,143	11,835	–	35,313
Net book value						
End of year	1,106	4,886	9,550	4,501	3,857	23,900
Beginning of year	1,163	4,689	9,478	3,746	2,605	21,681

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	2019					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,766	15,561	21,693	16,336	3,857	59,213
Additions	–	553	400	869	3,220	5,042
Additions upon business combinations	–	–	–	32	–	32
Transfers *(note 19)*	–	316	762	759	(1,564)	273
Disposals	–	(389)	(3)	(242)	–	(634)
Exchange differences	–	1	30	(15)	–	16
End of year	1,766	16,042	22,882	17,739	5,513	63,942
Accumulated depreciation and impairment						
Beginning of year	660	10,675	12,143	11,835	–	35,313
Charge for the year	53	324	490	583	–	1,450
Disposals	–	(389)	(3)	(230)	–	(622)
Exchange differences	–	–	14	(18)	–	(4)
End of year	713	10,610	12,644	12,170	–	36,137
Net book value						
End of year	1,053	5,432	10,238	5,569	5,513	27,805
Beginning of year	1,106	4,886	9,550	4,501	3,857	23,900

As at December 31, 2019, certain property, plant and equipment with an aggregate carrying amount of HK$2,563 million (2018: HK$923 million) were pledged as security for certain banking facilities of the Group. Refer to note 44 for details of the Group's banking facilities.

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

During the year ended December 31, 2019, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment resulted in changes in the estimated useful lives of these assets. The Group considered this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group's profit attributable to the equity holders of the Company for the year ended December 31, 2019 increased by HK$122 million and the equity attributable to the equity holders of the Company as at December 31, 2019 increased by HK$122 million.

16 RIGHT-OF-USE ASSETS

In HK$ million	2018	**2019**
Land and buildings	3,663	**3,369**
Network capacity and equipment	512	**376**
Total	4,175	**3,745**

The Group obtains right to control the use of various land and buildings, and network capacity and equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 20 years for land and buildings, and from 1 to 11 years for network capacity and equipment. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes.

Additions to the right-of-use assets during the year ended December 31, 2019 were HK$1,495 million (2018: HK$2,854 million).

During the year ended December 31, 2019, total cash outflow for leases of HK$2,013 million (2018: HK$2,013 million) was included in net cash used in financing activities.

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

17 INVESTMENT PROPERTIES

In HK$ million	2018	**2019**
Beginning of year	3,744	**3,517**
Additions	44	**10**
Exchange differences	(271)	**153**
End of year	3,517	**3,680**

There were no unrealized gains of the investment properties for the year ended December 31, 2019 (2018: nil) recognized in the consolidated income statement as fair value gains on investment properties.

As at December 31, 2019, value added tax receivables of HK$249 million and HK$17 million (2018: HK$255 million and HK$11 million) in relation to the land acquisition and construction of the investment property were included in other non-current assets and prepayments, deposits and other current assets in the consolidated statement of financial position respectively.

17 INVESTMENT PROPERTIES *(CONTINUED)*

a. Estimation of fair values and valuation techniques

The tables below analyze the investment properties carried at fair value. The different levels are defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets (level 1);
– Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
– Inputs for asset that are not based on observable market data (level 3).

In HK$ million	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties				
Indonesia	–	–	3,517	3,517

In HK$ million	**2019**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Investment properties				
Indonesia	**–**	**–**	**3,680**	**3,680**

During the years ended December 31, 2018 and 2019, there were no transfers between different levels.

Information about level 3 fair value measurements

		2018	
Investment properties	Valuation technique	Significant unobservable inputs	Rate
Indonesia	Income capitalization approach	Capitalization rate	7%
		Monthly gross market rent:	
		for office	*Rp 340,000/sq.m. to Rp 480,000/sq.m.
		for retail	Rp 330,000/sq.m. to Rp 600,000/sq.m.

17 INVESTMENT PROPERTIES *(CONTINUED)*

a. Estimation of fair values and valuation techniques *(continued)*

Information about level 3 fair value measurements

		2019	
Investment properties	**Valuation technique**	**Significant unobservable inputs**	**Rate**
Indonesia	**Income capitalization approach**	**Capitalization rate**	**7%**
		Monthly gross market rent:	
		for office	***Rp 370,000/sq.m. to Rp 480,000/sq.m.**
		for retail	**Rp 330,000/sq.m. to Rp 600,000/sq.m.**

* Rp represents Indonesian Rupiah

For the years ended December 31, 2018 and 2019, the fair value of investment property in Indonesia were determined by an independent professional valuer using the income capitalization approach. These valuations took into account expected market rental and capitalization rate. A significant change in the expected market rental or capitalization rate would result in a significant change in the fair value of the investment property.

b. The Group leases out investment properties under operating leases. The majority of the leases typically run for periods of 2 to 10 years (2018: 2 to 10 years). None of the leases include material contingent rentals.

c. Outgoings arising from the investment properties amounted to HK$52 million (2018: HK$44 million) for the year ended December 31, 2019.

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	2018	**2019**
Cost		
Beginning of year	820	**813**
Disposal of interests in subsidiaries	(7)	**–**
End of year	813	**813**
Accumulated amortization		
Beginning of year	416	**428**
Charge for the year	18	**17**
Disposal of interests in subsidiaries	(6)	**–**
End of year	428	**445**
Net book value		
End of year	385	**368**
Beginning of year	404	**385**

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/HELD FOR SALE

In HK$ million	2018		
	Properties held for development *(note a)*	Properties under development/ held for sale *(note b)*	Total
Beginning of year	598	590	1,188
Additions	2,219	505	2,724
Exchange differences	5	17	22
	2,822	1,112	3,934
Less: classified as current assets	–	(770)	(770)
End of year	2,822	342	3,164

In HK$ million	**2019**		
	Properties held for development *(note a)*	**Properties under development/ held for sale** *(note b)*	**Total**
Beginning of year	**2,822**	**1,112**	**3,934**
Additions	**28**	**1,026**	**1,054**
Charged to consolidated income statement	**–**	**(408)**	**(408)**
Transfers *(note 15)*	**(242)**	**(31)**	**(273)**
Exchange differences	**45**	**(9)**	**36**
	2,653	**1,690**	**4,343**
Less: classified as current assets	**–**	**(1,421)**	**(1,421)**
End of year	**2,653**	**269**	**2,922**

a. Properties held for development as at December 31, 2019 represent freehold land in Thailand and a property in Hong Kong, for which PCPD and its subsidiaries (collectively the “PCPD Group”) intends to hold for future development projects.

The land in Thailand is held by the PCPD Group through a long-term operating lease agreement with the legal owners, 39% owned entities of PCPD, established to hold the land, whose financial statements were consolidated into these consolidated financial statements with the carrying amount of HK$479 million (2018: HK$650 million) under properties held for development.

During the year ended December 31, 2019, a portion of land and construction costs in relation to the construction of a golf course and a golf and country club of HK$195 million and the land in relation to the first phase development of HK$47 million have been transferred from properties held for development to property, plant and equipment and properties under development respectively.

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/HELD FOR SALE *(CONTINUED)*

a. *(continued)*

PCPD management performed an assessment on the net realizable value of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2019. The valuation was based on the direct comparison approach which involved the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realizable value of the development project.

The PCPD Group completed acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration comprised (i) an initial cash consideration of HK$2,018 million and an adjustment to initial cash consideration of HK$146 million; and (ii) the allotment and issuance of one non-voting participating share of a wholly-owned subsidiary of PCPD to the seller which entitles the seller the right to 50% of the dividend distributions of the development project. The fair value of the non-voting participating share was estimated to be HK$133 million (2018: HK$133 million) and was recognized as non-controlling interests in the consolidated statement of financial position as at December 31, 2019. As at December 31, 2019, the carrying amount of HK$2,174 million (2018: HK$2,172 million) was recorded as properties held for development in the consolidated statement of financial position. PCPD management performed an assessment of the net realizable value of the development project based on the residual method which involved the use of significant estimates and assumptions such as expected selling prices and construction costs. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realizable value of the development project.

As at December 31, 2019, the carrying amount of leasehold land included in properties held for development was HK$2,174 million (2018: HK$2,172 million).

b. Properties under development classified as non-current assets as at December 31, 2019 represent the freehold land under development in Japan which is held by an indirect wholly-owned subsidiary of PCPD. PCPD management performed an assessment of the net realizable value of the development project in Japan included in properties under development as at December 31, 2019. The assessment was based on the discounted cash flow forecast of the development project which involved the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realizable value of the development project.

Properties under development/held for sale classified as current assets as at December 31, 2019 consists of HK$1,309 million for the branded residences project completed and held for sale in Hokkaido, Japan and HK$112 million for first phase development project under construction in Thailand.

20 GOODWILL

In HK$ million	2018	**2019**
Cost		
Beginning of year	18,282	**18,346**
Additions upon business combinations	74	**153**
Exchange differences	(10)	**(1)**
End of year	18,346	**18,498**
Accumulated impairment		
Beginning and end of year	154	**154**
Carrying amount		
End of year	18,192	**18,344**
Beginning of year	18,128	**18,192**

Impairment tests for CGUs containing goodwill

Goodwill was allocated to the Group's CGUs identified according to operating segments as follows:

In HK$ million	2018	**2019**
HKT		
Mobile	15,591	**15,591**
Global Business	846	**849**
Local telephony and data services	202	**208**
	16,639	**16,648**
Media Business		
OTT Business	1,027	**1,022**
Pay-TV Business	162	**162**
	1,189	**1,184**
Solutions Business	271	**419**
PCPD	93	**93**
Total	18,192	**18,344**

20 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill *(continued)*

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a 5-year period, except for the Media Business of which a period of up to 10 years is considered appropriate to take into account the business cycle and the significant growth plans for the business which is currently in the start-up and development stage. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2019 were as follows:

	2018				**2019**			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Pre-tax discount rate	**Revenue growth rate**	**EBITDA growth rate**	**Terminal growth rate**	**Pre-tax discount rate**
Mobile	2%	3%	2%	12%	**3%**	**2%**	**2%**	**11%**
Global Business	1%	3%	3%	13%	**1%**	**2%**	**3%**	**13%**
Local telephony and data services	2%	2%	1%	8%	**1%**	**1%**	**1%**	**8%**
OTT Business	37%	116%	3%	20%	**28%**	**99%**	**3%**	**18%**
Pay-TV Business	3%	8%	3%	17%	**4%**	**7%**	**4%**	**16%**
Solutions Business	2%	2%	2%	17%	**4%**	**4%**	**3%**	**14%**

These assumptions were used for the analysis of each CGU.

There was no impairment required from the review on goodwill. A reasonably possible change in assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered necessary.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used were consistent with the forecasts included in industry reports. The terminal growth rates did not exceed the long-term average growth rates for the businesses in which the CGUs operate.

21 INTANGIBLE ASSETS

In HK$ million	2018						
	Trademarks	Capitalized programme costs	Carrier licences	Customer base	Software	Others	Total
Cost							
Beginning of year	2,920	1,904	5,178	3,102	3,492	47	16,643
Additions	–	901	104	–	2,350	5	3,360
Additions upon business combinations	–	–	–	13	–	23	36
Write-off	–	(181)	(730)	–	–	–	(911)
Exchange differences	(2)	(5)	–	(1)	–	–	(8)
End of year	2,918	2,619	4,552	3,114	5,842	75	19,120
Accumulated amortization and impairment							
Beginning of year	1,583	1,166	1,617	1,766	878	30	7,040
Charge for the year	146	669	414	489	271	7	1,996
Write-off	–	(181)	(730)	–	–	–	(911)
Exchange differences	(1)	–	–	–	–	–	(1)
End of year	1,728	1,654	1,301	2,255	1,149	37	8,124
Net book value							
End of year	1,190	965	3,251	859	4,693	38	10,996
Beginning of year	1,337	738	3,561	1,336	2,614	17	9,603

21 INTANGIBLE ASSETS *(CONTINUED)*

In HK$ million	2019						
	Trademarks	Capitalized programme costs	Carrier licences	Customer base	Software	Others	Total
Cost							
Beginning of year	2,918	2,619	4,552	3,114	5,842	75	19,120
Additions	–	1,146	421	–	2,984	4	4,555
Additions upon business combinations	–	–	–	86	–	–	86
Write-off	–	(569)	(101)	–	–	(8)	(678)
Exchange differences	–	(3)	–	1	–	–	(2)
End of year	2,918	3,193	4,872	3,201	8,826	71	23,081
Accumulated amortization and impairment							
Beginning of year	1,728	1,654	1,301	2,255	1,149	37	8,124
Charge for the year	141	960	412	222	555	14	2,304
Write-off	–	(569)	(101)	–	–	(8)	(678)
Exchange differences	–	(1)	–	1	–	–	–
End of year	1,869	2,044	1,612	2,478	1,704	43	9,750
Net book value							
End of year	1,049	1,149	3,260	723	7,122	28	13,331
Beginning of year	1,190	965	3,251	859	4,693	38	10,996

The amortization charge for the year is included in general and administrative expenses in the consolidated income statement.

As at December 31, 2018 and 2019, no impairment was recognized for the intangible assets. Impairment assessments for intangible assets are performed as part of the impairment assessments for the corresponding CGUs. For details of the accounting policies and the impairment assessments, please refer to notes 2(p)(ii) and 20.

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INTERESTS IN SUBSIDIARIES

a. Particulars of the principal subsidiaries of the Company as at December 31, 2019 are as follows:

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,785,871.167 ordinary shares and HK$3,785,871.167 preference shares	–	52.0%	48.0%
HKT Group Holdings Limited[3] ("HKTGH")	Cayman Islands	Investment holding	US$636,000,019	–	52.0%	48.0%
Hong Kong Telecommunications (HKT) Limited[3] ("HKTL")	Hong Kong	Provision of telecommunications services	HK$9,945,156,001	–	52.0%	48.0%
電訊盈科科技(北京)有限公司[1, 3] (PCCW Technology (Beijing) Limited*)	The People's Republic of China (the "PRC")	System integration, software development and technical services consultancy	RMB40,000,000	–	52.0%	48.0%
HKT Services Limited[3]	Hong Kong	Provision of management services to group companies	HK$1	–	52.0%	48.0%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%	–
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$5	–	100%	–
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%	–
CSL Mobile Limited[3]	Hong Kong	Provision of mobile services to its customers and the sale of mobile handsets and accessories	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	52.0%	48.0%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$5,507,310,269 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%	–
PCCW Content Limited	Hong Kong	Media	HK$1	–	100%	–

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2019 are as follows: *(continued)*

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
PCCW OTT (Hong Kong) Limited[6]	Hong Kong	Provision of interactive multimedia services	HK$1	–	82.0%	18.0%
PCCW OTT (Singapore) Pte. Ltd.[6]	Singapore	Investment holding and provision of digital media service	S$26,545,949	–	82.0%	18.0%
PCCW OTT (Thailand) Company Limited[6]	Thailand	(a) Providing content related services in Thailand through digital platforms including online streaming and downloading for TV shows, movies, music and other types of contents to users; and (b) Providing lease of space in Thailand on digital platforms including websites, mobile applications and other internet based platforms to customers	THB52,055,235	–	82.0%	18.0%
HK Television Entertainment Company Limited[4] ("HKTVE")	Hong Kong	Broadcasting and related services	HK$50 "A" Class shares (non-voting), HK$100 "B" Class shares (voting) and HK$50 "C" Class shares (non-voting)	–	100%	–
Vuclip, Inc.[6]	California, U.S.	Management and engineering support services	US$1	–	82.0%	18.0%
PC Music Holdings Limited	British Virgin Islands	Investment holding	US$11	–	100%	–
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%	–
HKT Teleservices International Limited[3]	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$350,000,002	–	52.0%	48.0%
廣州電盈綜合客戶服務技術發展有限公司[1, 3] (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The PRC	Customer service and consultancy	HK$93,240,000	–	52.0%	48.0%

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2019 are as follows: *(continued)*

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
PCCW (Macau), Limitada[2, 3]	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	39.0%	61.0%
PCCW Global B.V.[3]	Netherlands/ France	Sales, distribution and marketing of telecommunication services and products	EUR18,000	–	52.0%	48.0%
PCCW Global (Japan) K.K.[3]	Japan	Provision of telecommunications services	JPY10,000,000	–	52.0%	48.0%
PCCW Global (HK) Limited[3]	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	52.0%	48.0%
PCCW Global Limited[3]	Hong Kong/ Dubai Media City	Provision of network-based telecommunications services	HK$240,016,690.65	–	52.0%	48.0%
PCCW Global, Inc.[3]	Delaware, U.S.	Supply of broadband internet access solutions and web services	US$18.01	–	52.0%	48.0%
HKT Global (Singapore) Pte. Ltd.[3]	Singapore/ Malaysia	Provision of telecommunications solutions related services	S$60,956,485.64	–	52.0%	48.0%
Gateway Global Communications Limited[3]	United Kingdom	Provision of network-based telecommunications services to external customers and related companies	GBP1	–	52.0%	48.0%
Sun Mobile Limited[2, 3]	Hong Kong	Provision of mobile telecommunications services to customers in Hong Kong	HK$41,600,002	–	31.2%	68.8%
電訊盈科(北京)有限公司[1] (PCCW (Beijing) Limited*)	The PRC	Software development, systems integration, consulting and informatization projects	US$10,250,000	–	100%	–
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$2,966,294,067.89	–	100%	–
電訊盈科信息技術(廣州)有限公司[1] (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK$35,300,000	–	100%	–

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2019 are as follows: *(continued)*

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
Pacific Century Cyberworks Solutions (Macau) Limited	Macau	Provision of integrated information, communications and technology services, infrastructure construction outsourcing, application outsourcing, specific business process outsourcing services for various industries and cloud computing	MOP25,000	–	100%	–
PCCW Solutions Singapore Pte. Ltd.	Singapore	Computer facilities management and information technology consultancy (except cybersecurity)	S$4,800,000	–	100%	–
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%	–
Pacific Century Premium Developments Limited	Bermuda/ Hong Kong	Investment holding	HK$201,094,656.50	–	70.9%	29.1%
Cyber-Port Limited[5]	Hong Kong	Property development	HK$2	–	70.9%	29.1%
Talent Master Investments Limited[5]	British Virgin Islands/ Hong Kong	Property investment	US$1	–	70.9%	29.1%
Nihon Harmony Resorts KK[5]	Japan	Ski operation	JPY405,000,000	–	70.9%	29.1%
Harmony TMK[5]	Japan	Property development	JPY345,000,000 specified capital and JPY20,050,000,000 preferred capital	–	70.9%	29.1%
Triple8 KK[5]	Japan	Property development and hotel management	JPY199,000,000	–	70.9%	29.1%
PT Prima Bangun Investama[5]	Indonesia	Property development and management	US$26,000,000	–	70.9%	29.1%
Phang-nga Leisure Limited[2, 5]	Thailand	Property holding and leasing	THB2,000,000	–	27.7%	72.3%
Phang-nga Paradise Limited[2, 5]	Thailand	Property holding and leasing	THB2,000,000	–	27.7%	72.3%

* Unofficial company name

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2019 are as follows: *(continued)*

Notes:

1 Represents a wholly foreign owned enterprise.

2 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.

3 These companies are subsidiaries of HKT Trust and HKT, the Share Stapled Units of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for HKT Trust, HKT and its subsidiaries (collectively the "HKT Group") in accordance with Hong Kong Financial Reporting Standards.

4 Pursuant to the Hong Kong Companies Ordinance (Cap. 622) being in force as at December 31, 2019, HKTVE was treated by PCCW as a subsidiary as defined therein.

5 These companies are subsidiaries of PCPD, the shares of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for the PCPD Group in accordance with Hong Kong Financial Reporting Standards. The Group holds approximately 70.9% of the ordinary shares of PCPD and certain non-redeemable bonus convertible notes with conversion rights to acquire a further approximately 21.7% of ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and can be converted at any time provided that the public float requirements could be complied with, PCCW consolidates the results of PCPD on its approximately 92.6% economic interest taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with Hong Kong Financial Reporting Standards.

6 These companies are subsidiaries of PCCW International OTT (Cayman Islands) Holdings Limited ("PCCW OTT"), previously an indirect wholly-owned subsidiary of the Company. On September 25, 2017, PCCW OTT issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares"), representing approximately 18% of its enlarged issued share capital. Refer to note 38(a) for details. PCCW consolidates the results of PCCW OTT and its subsidiaries on its 100% economic interest taking into account the OTT Preference Shares in accordance with Hong Kong Financial Reporting Standards.

b. Significant restrictions

Refer to note 28(b) for the restricted cash balances that mainly relate to PCPD included within the consolidated financial statements which are subject to the Cyberport Project Agreement.

c. Summarized financial information of subsidiaries with material non-controlling interests

Set out below is the summarized consolidated financial information of the HKT Group and the PCPD Group which are subsidiaries that have non-controlling interests that are material to the Group.

Summarized statements of financial position are as follows:

In HK$ million	HKT Group		PCPD Group	
	2018	**2019**	2018	**2019**
Non-current assets	86,836	**89,848**	8,843	**10,486**
Current assets	10,729	**9,921**	2,729	**4,683**
Total assets	97,565	**99,769**	11,572	**15,169**
Current liabilities	(12,141)	**(13,091)**	(1,039)	**(3,462)**
Non-current liabilities	(47,830)	**(48,708)**	(6,427)	**(7,683)**
Net assets	37,594	**37,970**	4,106	**4,024**
Non-controlling interests	(39)	**(58)**	(133)	**(133)**
Net assets after non-controlling interests	37,555	**37,912**	3,973	**3,891**

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Summarized financial information of subsidiaries with material non-controlling interests *(continued)*

Summarized financial information is as follows:

In HK$ million	HKT Group		PCPD Group	
	2018	**2019**	2018	**2019**
Revenue	35,187	**33,103**	300	**1,015**
Profit/(loss) before income tax	5,852	**6,274**	(389)	**(230)**
Income tax	(1,010)	**(1,037)**	(48)	**(65)**
Profit/(loss) for the year	4,842	**5,237**	(437)	**(295)**
Other comprehensive (loss)/income	(136)	**418**	(250)	**213**
Total comprehensive income/(loss)	4,706	**5,655**	(687)	**(82)**
Non-controlling interests	(17)	**(20)**	–	**–**
Total comprehensive income/(loss) after non-controlling interests	4,689	**5,635**	(687)	**(82)**
Dividends paid to non-controlling interests	2,416	**2,528**	–	**–**

Summarized cash flows are as follows:

In HK$ million	HKT Group		PCPD Group	
	2018	**2019**	2018	**2019**
Cash flows from operating activities				
Cash generated from/(used in) operations	11,318	**11,234**	(3,021)	**114**
Interest received	39	**35**	56	**20**
Income tax paid, net of tax refund	(698)	**(185)**	(41)	**(52)**
Net cash generated from/(used in) operating activities	10,659	**11,084**	(3,006)	**82**
Net cash (used in)/generated from investing activities	(4,789)	**(5,438)**	127	**(1,815)**
Net cash (used in)/generated from financing activities	(6,541)	**(5,747)**	1,100	**2,241**
Net (decrease)/increase in cash and cash equivalents	(671)	**(101)**	(1,779)	**508**
Exchange differences	(12)	**(16)**	10	**6**
Cash and cash equivalents at January 1,	3,217	**2,534**	2,633	**864**
Cash and cash equivalents at December 31,	2,534	**2,417**	864	**1,378**

The information above represents amounts before inter-company eliminations and group consolidation adjustments.

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Summarized financial information of subsidiaries with material non-controlling interests *(continued)*

The total comprehensive income after group consolidation adjustments of the HKT Group for the year ended December 31, 2019 was HK$4,965 million (2018: HK$4,409 million), of which HK$2,404 million (2018: HK$2,133 million) was allocated to the non-controlling interests.

The total comprehensive loss after group consolidation adjustments of the PCPD Group for the year ended December 31, 2019 was HK$82 million (2018: HK$691 million), of which a loss of HK$6 million (2018: HK$51 million) was allocated to the non-controlling interests.

The net assets after non-controlling interests and group consolidation adjustments of the HKT Group as at December 31, 2019 was HK$3,947 million (2018: HK$4,252 million) and the net assets after non-controlling interests and group consolidation adjustments of the PCPD Group as at December 31, 2019 was HK$3,822 million (2018: HK$3,904 million).

The total of non-controlling interests as at December 31, 2019 was HK$2,434 million (2018: HK$2,514 million), of which HK$1,953 million (2018: HK$2,081 million) and HK$414 million (2018: HK$420 million) were attributable to the HKT Group and the PCPD Group, respectively.

23 INTERESTS IN ASSOCIATES

In HK$ million	2018	**2019**
Share of net assets of associates	901	**1,304**
Loans due from associates, net	312	**312**
Amount due from an associate	34	**34**
	1,247	**1,650**
Provision for impairment	(469)	**(467)**
	778	**1,183**
Investments at cost, unlisted shares	815	**1,183**

Pursuant to the subscription agreement and the shareholders' agreement, both dated March 27, 2019, for the formation of a joint venture to undertake the business of operating a virtual bank in Hong Kong, the Group subscribed for an aggregate of 25% of the total issued share capital of SC Digital Solutions Limited, a company incorporated in Hong Kong for an aggregate price of HK$403 million during the year ended December 31, 2019. SC Digital Solutions Limited is licensed by the Hong Kong Monetary Authority to operate a virtual bank in Hong Kong.

23 INTERESTS IN ASSOCIATES *(CONTINUED)*

a. Particulars of the principal associate of the Group as at December 31, 2019 are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*) ("PCITC")	The PRC	Design and development of enterprise resource planning systems, and customer relationship management systems	RMB300,000,000	–	45.0%	Equity

* Unofficial company name

PCITC is strategic to the Group's growth in its Solutions Business and provides the Group with access to expertise in design and development of enterprise resources planning, logistics management, supply chain management, customer relationship management and information system supervision, consultation and testing.

PCITC is a private company and there is no quoted market price available for its shares.

b. Contingent liabilities in respect of associates

The Group's contingent liabilities relating to its associates are disclosed in note 43. As at December 31, 2019, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK$7 million (2018: HK$8 million).

c. Summarized unaudited financial information of the Group's associates

Set out below is the summarized unaudited financial information for the associate that is material to the Group and is accounted for using the equity method.

Summarized unaudited financial information is as follows:

In HK$ million	PCITC As at December 31, 2018	PCITC As at December 31, 2019
Non-current assets	760	**654**
Current assets	3,803	**4,242**
Current liabilities	(2,807)	**(2,926)**
Non-current liabilities	(91)	**(117)**

In HK$ million	PCITC For the year ended December 31, 2018	PCITC For the year ended December 31, 2019
Revenue	3,356	**3,478**
Profit after income tax and total comprehensive income	219	**244**
Dividends received from the associate	7	**8**

The information above reflects the amounts presented in the financial statements of the associate (not the Group's share of those amounts) and adjusted for differences in accounting policies between the Group and the associate, if any.

23 INTERESTS IN ASSOCIATES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's associates *(continued)*

For the year ended December 31, 2019, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates that are accounted for using the equity method were HK$55 million, nil and HK$55 million, respectively.

For the year ended December 31, 2018, the Group had not accounted for any share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates under equity method.

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in PCITC, the principal associate.

In HK$ million	PCITC	
	2018	**2019**
Net assets		
Beginning of year	1,534	**1,663**
Profit and total comprehensive income for the year	219	**244**
Exchange differences	(72)	**(35)**
Dividends	(16)	**(19)**
End of year	1,665	**1,853**
Interest in an associate	45%	**45%**
	749	**834**
Carrying amount	749	**834**

As at December 31, 2019, loans due from associates comprised certain unsecured loans totaling HK$340 million (2018: HK$160 million) which bear interest at 3% per annum (2018: same) and are repayable within 1 year (2018: same), and a secured loan amounted to HK$6 million (2018: HK$6 million) which bears interest at 8% per annum (2018: same) and is repayable within 1 year (2018: same). Certain secured loans totaling HK$180 million as at December 31, 2018, bearing interest at 3% per annum and repayable within 1 year had become unsecured in 2019. These loans are considered as equity in nature for which full provision for impairment has been made as at December 31, 2018 and 2019.

As at December 31, 2019, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK$349 million (2018: HK$29 million).

During the year ended December 31, 2019, the Group had unrecognized share of losses of associates of HK$3 million (2018: HK$7 million). As at December 31, 2019, the Group had unrecognized accumulated share of losses of the associates of HK$10 million (2018: HK$7 million).

24 INTERESTS IN JOINT VENTURES

In HK$ million	2018	**2019**
Share of net assets of joint ventures	2,916	**2,920**
Loan due from a joint venture, net	382	**337**
Amounts due from joint ventures	25	**25**
	3,323	**3,282**
Provision for impairment	(2,793)	**(2,785)**
	530	**497**
Investments at cost, unlisted shares	3,668	**3,703**

As at December 31, 2019, the amounts due from joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment, and the loan due from a joint venture of HK$337 million (2018: HK$382 million) bears interest at HIBOR plus 3% per annum (2018: same). These balances with joint ventures are considered as part of the interests in joint ventures.

a. Particulars of the principal joint venture of the Group as at December 31, 2019 are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	26.0%	Equity

GBL is a strategic partnership of the Group, providing access to advanced connectivity services in Hong Kong for the development of mobile business.

GBL is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures
As at December 31, 2019, the Group's commitments in respect of joint ventures are as follows:

In HK$ million	2018	**2019**
The Group's commitments to provide funding	73	**59**

In HK$ million	2018	**2019**
The Group's share of its joint ventures' capital commitments authorized and contracted for acquisition of property, plant and equipment, based on the Group's effective interest	13	**6**
The Group's share of its joint ventures' other commitments, based on the Group's effective interest	–	**11**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2019, the Group had no effective share of contingent liabilities relating to its joint ventures (2018: nil).

24 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Group and being accounted for using the equity method.

In HK$ million	GBL As at December 31, 2018	**2019**
Non-current assets	900	**801**
Current assets		
Cash and cash equivalents	28	**6**
Other current assets (excluding cash and cash equivalents)	25	**31**
Total current assets	53	**37**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(325)	**(323)**
Other current liabilities (including trade payables, accruals and other payables)	(65)	**(72)**
Total current liabilities	(390)	**(395)**
Non-current liabilities		
Financial liabilities	(604)	**(494)**
Other non-current liabilities	(33)	**(33)**
Total non-current liabilities	(637)	**(527)**
Net liabilities	(74)	**(84)**
Equity attributable to equity holders	(74)	**(84)**

In HK$ million	GBL For the year ended December 31, 2018	**2019**
Revenue	254	**255**
Depreciation and amortization	(102)	**(97)**
Interest expense	(43)	**(41)**
Profit before income tax	1	**1**
Income tax	(12)	**(11)**
Loss after income tax and total comprehensive loss	(11)	**(10)**
Dividends received from the joint venture	–	**–**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) and adjusted for differences in accounting policies between the Group and the joint venture, if any.

24 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures *(continued)*

For the year ended December 31, 2019, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive loss and total comprehensive loss of individually immaterial joint ventures that are accounted for using the equity method were HK$16 million (2018: HK$24 million), HK$2 million (2018: nil) and HK$18 million (2018: HK$24 million), respectively.

d. Reconciliation of summarized unaudited financial information of the Group's joint ventures

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in GBL, the principal joint venture.

In HK$ million	GBL	
	2018	**2019**
Net liabilities		
Beginning of year	(63)	**(74)**
Loss and total comprehensive loss for the year	(11)	**(10)**
End of year	(74)	**(84)**
Interest in a joint venture	50%*	**50%***
	(37)	**(42)**
Loan due from a joint venture	382	**337**
Carrying amount	345	**295**

* The Group held approximately 26.0% (2018: 26.0%) effective interest through its non-wholly owned subsidiary in the equity of GBL as at December 31, 2019.

As at December 31, 2019, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK$202 million (2018: HK$185 million).

During the year ended December 31, 2019, the Group had unrecognized share of losses of joint ventures of nil (2018: HK$1 million). As at December 31, 2019, the Group had unrecognized accumulated share of losses of the joint ventures of HK$1 million (2018: HK$1 million).

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK$ million	2018	2019
Beginning of year	1,183	**1,102**
Additions	–	**47**
Disposals	–	**(971)**
Fair value losses recognized in other comprehensive income	(81)	**(54)**
End of year	1,102	**124**

In HK$ million	2018	2019
Non-current assets		
Listed securities	1,025	**–**
Unlisted securities	77	**124**
	1,102	**124**

As at December 31, 2019, financial assets at FVOCI comprised unlisted equity investments with carrying amount of HK$124 million. As at December 31, 2018, financial assets at FVOCI comprised an equity investment listed on Euronext Amsterdam with carrying amount of HK$1,025 million and an unlisted equity investment with carrying amount of HK$77 million. All of these investments are not held for trading purposes.

As at December 31, 2019, none of the financial assets at FVOCI were pledged. As at December 31, 2018, certain financial assets at FVOCI with a carrying amount of HK$963 million were pledged as security for certain banking facilities of the Group.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2018	2019
Beginning of year	917	**731**
Additions	79	**74**
Disposals	(565)	**(37)**
Fair value gains recognized in other gains, net	300	**49**
End of year	731	**817**

In HK$ million	2018	2019
Non-current assets		
Listed securities	9	**–**
Unlisted securities	722	**817**
	731	**817**

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(CONTINUED)*

Financial assets at FVPL mainly comprise:

– debt instruments that do not qualify for measurement either at amortized cost or at FVOCI; and

– equity investments for which the Group has not elected to recognize fair value gains and losses through other comprehensive income.

27 OTHER NON-CURRENT ASSETS

In HK$ million	2018	**2019**
Prepayments	1,097	**996**
Deposits	133	**326**
Others	13	**11**
	1,243	**1,333**

28 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the PCPD Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$506 million as at December 31, 2019 (2018: HK$507 million) are exposed to minimal credit risk.

b. Restricted cash

As at December 31, 2019, restricted cash mainly included a balance of HK$98 million (2018: HK$94 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement; and a balance of HK$496 million (2018: HK$221 million) held in specific reserve accounts pledged for certain bank borrowings purpose.

As at December 31, 2019, there was no (2018: HK$217 million) restricted cash balance pledged for bank borrowings purpose was classified under the non-current assets in the consolidated statement of financial position.

c. Prepayments, deposits and other current assets

In HK$ million	2018	**2019**
Prepayments	1,051	**1,107**
Deposits	718	**549**
Other current assets	1,979	**1,983**
	3,748	**3,639**

As at December 31, 2019, included in prepayments were prepaid programme costs of HK$202 million (2018: HK$325 million).

28 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

d. Inventories

In HK$ million	2018	**2019**
Purchased parts and materials	801	**646**
Finished goods	400	**516**
Consumable inventories	79	**64**
	1,280	**1,226**

e. Trade receivables, net

In HK$ million	2018	**2019**
Trade receivables *(note i)*	5,011	**4,900**
Less: loss allowance *(note ii)*	(212)	**(284)**
Trade receivables, net	4,799	**4,616**

The balance represents amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days from the date of invoice and therefore are all classified as current. Details about the Group's impairment policies are provided in note 2(p)(i).

As at December 31, 2019, included in trade receivables, net were amounts due from related parties of HK$54 million (2018: HK$56 million).

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

In HK$ million	2018	**2019**
1 – 30 days	3,422	**3,211**
31 – 60 days	526	**493**
61 – 90 days	202	**353**
91 – 120 days	162	**152**
Over 120 days	699	**691**
	5,011	**4,900**

28 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

ii. Impairment for trade receivables

The Group applies the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material. On that basis, the loss allowance as at December 31, 2019 was determined as follows:

Expected credit loss rate	2018	**2019**
Current	1%	**1%**
1 – 120 days past due	2%	**5%**
Over 120 days past due	38%	**40%**

The movements in the loss allowance during the year were as follows:

In HK$ million	2018	**2019**
Beginning of year	257	**212**
Net impairment loss recognized	251	**318**
Uncollectible amounts written off	(296)	**(246)**
End of year	212	**284**

f. Short-term borrowings

In HK$ million	2018	**2019**
Bank borrowings	608	**1,528**
Secured	608	**1,528**
Unsecured	–	**–**

Refer to note 44 for details of the Group's banking facilities.

28 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

g. Trade payables

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

In HK$ million	2018	**2019**
1 – 30 days	1,287	**1,585**
31 – 60 days	140	**583**
61 – 90 days	59	**105**
91 – 120 days	28	**34**
Over 120 days	438	**439**
	1,952	**2,746**

As at December 31, 2019, included in trade payables were amounts due to related parties of HK$21 million (2018: HK$32 million).

29 LONG-TERM BORROWINGS

In HK$ million	2018	**2019**
Repayable within a period		
– over one year, but not exceeding two years	3,253	**5,213**
– over two years, but not exceeding five years	31,412	**29,941**
– over five years	14,642	**18,351**
	49,307	**53,505**
Representing:		
US$300 million 5.75% guaranteed notes due 2022 *(note a)*	2,277	**2,337**
US$500 million 3.75% guaranteed notes due 2023 *(note b)*	3,818	**3,819**
US$300 million zero coupon guaranteed notes due 2030 *(note c)*	2,335	**2,324**
US$500 million 3.625% guaranteed notes due 2025 *(note d)*	3,878	**3,862**
EUR200 million 1.65% guaranteed notes due 2027 *(note e)*	1,761	**1,713**
US$100 million zero coupon guaranteed notes due 2030 *(note f)*	778	**774**
US$750 million 3.00% guaranteed notes due 2026 *(note g)*	5,840	**5,812**
US$630 million (2018: US$570 million) 4.75% guaranteed notes due 2022 *(note h)*	4,439	**4,893**
US$500 million 3.25% guaranteed notes due 2029 *(note i)*	–	**3,826**
Bank borrowings	24,181	**24,145**
	49,307	**53,505**
Secured	1,644	**1,937**
Unsecured	47,663	**51,568**

29 LONG-TERM BORROWINGS *(CONTINUED)*

a. US$300 million 5.75% guaranteed notes due 2022

On April 17, 2012, PCCW Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

b. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

c. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange. 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. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

e. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect non-wholly owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

f. US$100 million zero coupon guaranteed notes due 2030

On May 20, 2015, PCCW Capital No. 5 Limited, a direct wholly-owned subsidiary of the Company, issued US$100 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

g. US$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

h. US$630 million (2018: US$570 million) 4.75% guaranteed notes due 2022

On March 9, 2017 and October 3, 2019, PCPD Capital Limited ("PCPD Capital"), an indirect non-wholly owned subsidiary of the Company, issued 4.75% guaranteed notes due 2022 of US$570 million and US$130 million respectively, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by PCPD and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and PCPD.

On March 8, 2019, the Group purchased US$70 million 4.75% guaranteed notes due 2022, which were issued by PCPD Capital, for a consideration of approximately US$67 million (approximately HK$528 million). The carrying amount of the guaranteed notes at the time of purchase was HK$547 million, resulting in a net gain on purchase of HK$19 million recognized in other gains, net in the consolidated income statement.

29 LONG-TERM BORROWINGS *(CONTINUED)*

i. US$500 million 3.25% guaranteed notes due 2029

On September 30, 2019, HKT Capital No. 5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.25% guaranteed notes due 2029, 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.

j. Refer to note 44 for details of the Group's banking facilities.

30 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

Pursuant to the agreement dated May 17, 2000 entered into by the PCPD Group with the Government of Hong Kong (the "Government") (the "Cyberport Project Agreement"), the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the Government is based on the surplus from sales proceeds of the residential portion after the development costs of the Cyberport project. As at December 31, 2019, the amount attributable to the Government share under the Cyberport Project Agreement was HK$325 million (2018: HK$322 million).

31 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2018	**2019**
Non-current assets		
Cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges for foreign currency risk *(note a)*	120	**240**
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	32	**44**
	152	**284**
Current assets		
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	–	**6**
Foreign currency option	4	**–**
	4	**6**
Non-current liabilities		
Cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges for foreign currency risk *(note a)*	(155)	**(14)**
Cross currency swap contracts – fair value hedges for interest rate risk and foreign currency risk *(note c)*	(79)	**(18)**
Interest rate swap contract – cash flow hedge for interest rate risk *(note b)*	–	**(26)**
OTT Preference Shares Derivative (as defined in note 38(a)) *(note d)*	(29)	**(14)**
	(263)	**(72)**

Derivatives are mainly used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at FVPL.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

31 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Hedge ineffectiveness for the Group's cross currency swap, foreign exchange forward and interest rate swap contracts may occur due to:

– differences in critical terms between the hedged item and the hedging instrument; and

– changes in credit risk of the derivative counterparty.

a. Cash flow hedges for foreign currency risk

For certain borrowings denominated in foreign currencies, the Group has entered into cross currency swap contracts and foreign exchange forward contracts to hedge the foreign currency risk. The Group performed qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedged instruments.

The effects of the foreign currency related hedging instruments on the Group's financial position and performance are as follows:

	2018	**2019**
Net carrying amount ((liabilities)/assets)	(HK$35 million)	**HK$226 million**
Notional amount	EUR200 million and US$2,553 million	**EUR200 million and US$3,020 million**
Maturity date	January 2020 to April 2027	**April 2022 to September 2029**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$142 million)	**HK$303 million**
Change# in value of the hedged items during the year	HK$162 million	**(HK$247 million)**
Weighted average hedged exchange rate for the year	EUR1:HK$8.32 US$1:HK$7.75	**EUR1:HK$8.32** **US$1:HK$7.78**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Cash flow hedges for interest rate risk

For certain borrowings subject to cash flow interest rate risk, the Group has entered into floating-to-fixed interest rate swap contracts. The Group performed qualitative assessment of hedge effectiveness. As the interest rate swap contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedged instruments.

The effects of the interest rate related hedging instruments on the Group's financial position and performance are as follows:

	2018	**2019**
Net carrying amount (assets)	HK$32 million	**HK$24 million**
Notional amount	HK$1,500 million	**HK$6,370 million**
Maturity date	March 2021	**August 2020 to March 2023**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$9 million)	**HK$19 million**
Change# in value of the hedged items during the year	HK$11 million	**(HK$12 million)**
Weighted average receive leg/pay leg interest ratio	1.47	**1.15**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.
\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

c. Fair value hedges for interest rate risk and foreign currency risk

For certain fixed rate borrowings denominated in foreign currencies, the Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk. The Group performed qualitative assessment of hedge effectiveness. As the cross currency swap contracts have similar critical terms as the hedged item, such as notional amount, maturity dates and payment dates, the economic relationship exists between the hedged item and the hedged instruments.

The effects of the interest rate and foreign currency related hedging instruments on the Group's financial position and performance are as follows:

	2018	**2019**
Carrying amount (liabilities)	(HK$79 million)	**(HK$18 million)**
Notional amount	US$300 million	**US$300 million**
Maturity date	April 2022	**April 2022**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	HK$57 million	**HK$58 million**
Change# in value of the hedged item during the year	(HK$55 million)	**(HK$56 million)**
Receive leg/pay leg interest ratio	0.78	**0.88**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged item.
\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

As at December 31, 2019, included in the long-term borrowings were carrying amount of the hedged item of the fair value hedges of HK$2,337 million (2018: HK$2,277 million). As at December 31, 2019, the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item was negative HK$19 million (2018: positive HK$37 million).

31 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Other derivatives

OTT Preference Shares Derivative and OTT Preference Shares Option (both as defined under note 38(a)) are measured at fair value with fair value gain of HK$15 million (2018: HK$15 million) recognized in the other gains, net in the consolidated income statement for the year ended December 31, 2019.

Details of the OTT Preference Shares are described in note 38(a).

e. Hedging reserve and costs of hedging reserve

The Group's hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK$ million	Cash flow hedges for foreign currency risk	Cash flow hedges for interest rate risk	Total
Hedging reserve			
As at January 1, 2018	177	24	201
Cash flow hedges:			
– effective portion of changes in fair value	(100)	(6)	(106)
– transfer from equity to consolidated income statement	17	–	17
As at December 31, 2018 and January 1, 2019	**94**	**18**	**112**
Cash flow hedges:			
– effective portion of changes in fair value	**129**	**6**	**135**
– transfer from equity to consolidated income statement	**78**	**–**	**78**
As at December 31, 2019	**301**	**24**	**325**

In HK$ million	Cash flow hedges for foreign currency risk	Fair value hedges for interest rate risk and foreign currency risk	Total
Costs of hedging reserve			
As at January 1, 2018	(135)	(3)	(138)
Costs of hedging	45	(18)	27
As at December 31, 2018 and January 1, 2019	**(90)**	**(21)**	**(111)**
Costs of hedging	**7**	**2**	**9**
As at December 31, 2019	**(83)**	**(19)**	**(102)**

32 SHARE CAPITAL

	2018 Number of shares	2018 Share capital HK$ million	**2019 Number of shares**	**2019 Share capital HK$ million**
Ordinary shares of no par value, issued and fully paid:				
As at January 1, and December 31,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

(Year ended December 31,)

33 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payments for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by an independent trustee and maintained independently of the Group's finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendations from time to time on the basis of periodic valuations.

According to the funding valuation as at December 31, 2017, the expected employer contributions for the year ending December 31, 2020 are HK$8 million.

The independent actuarial valuation of the DB Schemes as at December 31, 2019, prepared in accordance with HKAS 19 (2011), was carried out by Ms Wing Lui of Willis Towers Watson, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 58% (2018: 53%) of the present value of the defined benefit retirement schemes obligations as at December 31, 2019.

As at December 31, 2019, the weighted average duration of the defined benefit retirement schemes obligations was 11.4 years (2018: 11.6 years).

33 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

i. The amount recognized in the consolidated statement of financial position is as follows:

In HK$ million	2018	**2019**
Present value of the defined benefit retirement schemes obligations *(note iii)*	290	**288**
Fair value of scheme assets *(note iv)*	(155)	**(168)**
Defined benefit retirement schemes liability	135	**120**

In HK$ million	2018	**2019**
Beginning of year	105	**135**
Net costs recognized in consolidated income statement	2	**3**
Remeasurements recognized in consolidated statement of comprehensive income	30	**(13)**
Contributions from employers	(2)	**(5)**
End of year	135	**120**

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	2018	**2019**
Equities	75%	**72%**
Fixed income securities	17%	**20%**
Cash and alternatives	8%	**8%**
Total	100%	**100%**

The Group ensures that the investment positions are managed within an asset-liability matching framework with the objective to match assets to the defined benefit retirement schemes obligations (i.e. to match the benefit payments as they fall due and in the appropriate currency). The Group has not changed the process used to manage its risk from previous periods.

Through the DB Schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

– Investment risk: strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit retirement schemes liability/asset, whilst poor or negative investment returns tend to weaken the financial position.

  The scheme assets are invested in a globally diversified portfolio of equities, fixed income securities, cash and alternatives, covering major geographical locations around the world to achieve the best returns over the long term within an acceptable level of risk. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.

– Interest rate risk: the defined benefit retirement schemes obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit retirement schemes obligations and vice versa.

– Inflation risk: pension in payment or in deferment may be increased once a year to reflect all or part of the cost-of-living increases in Hong Kong. The higher-than-expected increases in pensions will increase the defined benefit retirement schemes obligations and vice versa.

– Longevity risk: the defined benefit retirement schemes obligations are calculated by reference to the best estimate of the mortality of members after their employment. A decrease in mortality (i.e. improvement in life expectancy) will increase the defined benefit retirement schemes obligations.

33 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

iii. Movements in the present value of the defined benefit retirement schemes obligations are as follows:

In HK$ million	2018	**2019**
Beginning of year	292	**290**
Interest cost	6	**6**
Remeasurements		
Experience losses	4	**2**
Loss from change in financial and/or demographic assumptions	4	**7**
Benefits paid	(16)	**(17)**
End of year	290	**288**

iv. Movements in the fair value of scheme assets are as follows:

In HK$ million	2018	**2019**
Beginning of year	187	**155**
Contribution from employers	2	**5**
Interest income on scheme assets	4	**3**
Return on scheme assets (less)/greater than discount rate	(22)	**22**
Benefits paid	(16)	**(17)**
End of year	155	**168**

v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

In HK$ million	2018	**2019**
Net interest cost on net defined benefit retirement schemes liability	2	**3**
Total included in general and administrative expenses – retirement costs for other staff	2	**3**

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

	2018	**2019**
Discount rate	2.10%	**1.90%**
Pension increase rate	3.00%	**3.00%**

Based on the Hong Kong Life Tables released by the Government and upon observing the past experience of the DB Schemes, the Group adopted the Hong Kong Life Tables 2017 with a 3-year age set forward for the year ended December 31, 2018 and the Hong Kong Life Tables 2018 with a 3-year age set forward for the year ended December 31, 2019.

33 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows: *(continued)*

The sensitivity of the defined benefit retirement schemes obligations to changes in the weighted principal assumptions are:

		Impact on defined benefit retirement schemes obligations			
		2018		**2019**	
	Change in assumption	Increase in assumption	Decrease in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.25%**	(2.90%)	3.00%	**(2.80%)**	**3.00%**
Pension increase rate	**0.25%**	2.90%	n/a*	**2.80%**	**n/a***
Mortality	**1 year**	(4.80%)**	4.90%**	**(5.10%)****	**5.20%****

* Certain pension payments of the DB Schemes are subject to a minimum pension increase rate of 3.00% per annum taking into account inflation and other market factors.

** Increase in assumption means the Hong Kong Life Tables with a 4-year age set forward, whereas decrease in assumption means the Hong Kong Life Tables with a 2-year age set forward. The Hong Kong Life Tables 2017 are used for 2018 obligation and the Hong Kong Life Tables 2018 are used for 2019 obligation.

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit retirement schemes obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit retirement schemes obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

vii. Expected maturity analysis of undiscounted payments of defined benefit retirement schemes are as follows:

In HK$ million	As at December 31, 2018				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total
Undiscounted payments of defined benefit retirement schemes	16	16	48	299	379

In HK$ million	**As at December 31, 2019**				
	Within 1 year	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total**
Undiscounted payments of defined benefit retirement schemes	**16**	**16**	**48**	**285**	**365**

33 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

The Group also operates defined contribution retirement 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 retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

Forfeited contributions totaling HK$20 million (2018: HK$23 million) were utilized during the year ended December 31, 2019 to reduce contributions and no forfeited contribution was available at the end of the reporting period.

34 SHARE-BASED PAYMENT TRANSACTIONS

The Group operates the following share option schemes and share award schemes:

Share option schemes

- Share option scheme of the Company adopted on May 8, 2014 (the "2014 Scheme").
- Share Stapled Units option scheme of HKT Trust and HKT conditionally adopted on November 7, 2011 (the "HKT 2011-2021 Option Scheme").
- Share option scheme of PCPD adopted on May 6, 2015 (the "2015 PCPD Scheme").

Share award schemes

- Share award schemes of the Company namely the PCCW Purchase Scheme and the PCCW Subscription Scheme (collectively the "PCCW Share Award Schemes").
- Share Stapled Units award schemes of HKT namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "HKT Share Stapled Units Award Schemes").

The details of these schemes are disclosed under section "Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries" in the Report of the Directors of the Company's 2019 Annual Report.

Except for as disclosed above, PCPD has entered into other share-based payment transactions, please refer to note 34(c) for details.

a. Share option schemes

No share options/Share Stapled Unit options have been granted under the 2014 Scheme, the HKT 2011-2021 Option Scheme and the 2015 PCPD Scheme since their adoption and up to and including December 31, 2019.

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes, each scheme provides that prior to the vesting of the awards under the relevant schemes to selected participants (including any director or employee of the Company and its participating companies for the PCCW Share Award Schemes, and any director or employee of HKT or any of its subsidiaries for the HKT Share Stapled Units Award Schemes), the relevant PCCW Shares/Share Stapled Units will be held in trust by the trustee for such selected participants, and will be vested over a period of time determined by the respective approving body, provided that each selected participant shall remain at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of the Company, HKT, the relevant participating company or subsidiary, and satisfies any other conditions specified at the time the award is made, notwithstanding that the respective approving body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the relevant schemes.

During the year ended December 31, 2019, share-based compensation expenses in respect of the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes of HK$68 million (2018: HK$96 million) were recognized in the consolidated income statement, HK$59 million (2018: HK$83 million) were recognized in the employee share-based compensation reserve and HK$9 million (2018: HK$13 million) were recognized in non-controlling interests.

i. Movements in the number of PCCW Shares and Share Stapled Units held under the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes

	Number of PCCW Shares		Number of Share Stapled Units	
	2018	**2019**	2018	**2019**
PCCW Purchase Scheme:				
Beginning of year	2,419,685	**406,084**	552,986	**189,132**
Purchase from the market by the trustee at weighted average market price of HK$4.60 (2018: HK$4.53) per PCCW Share/HK$12.47 (2018: HK$9.90) per Share Stapled Unit	5,636,000	**9,514,000**	910,000	**2,139,000**
PCCW Shares/Share Stapled Units vested	(7,649,601)	**(5,497,040)**	(1,273,854)	**(1,311,657)**
End of year	406,084	**4,423,044**	189,132	**1,016,475**
PCCW Subscription Scheme:				
Beginning of year	10,060,881	**6,431,175**	–	**–**
PCCW Shares vested	(3,629,706)	**(3,710,188)**	–	**–**
End of year	6,431,175	**2,720,987**	–	**–**
HKT Share Stapled Units Purchase Scheme:				
Beginning of year			1,089,787	**245**
Purchase from the market by the trustee at weighted average market price of HK$12.45 (2018: HK$10.13) per Share Stapled Unit			2,038,000	**3,086,000**
Share Stapled Units vested			(3,127,542)	**(1,858,323)**
End of year			245	**1,227,922**

(Amount expressed in Hong Kong dollars unless otherwise stated)

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

			2018 Number of PCCW Shares				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2018	Awarded	Forfeited	Vested	At December 31, 2018
PCCW Purchase Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	573,022	–	–	(573,022)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,514,736	–	–	(1,514,736)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	2,153,139	–	–	(2,153,139)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	2,474,232	–	–	(664,338)*	1,809,894
March 7, 2018	March 7, 2018 to April 3, 2018	4.50	–	100,447	–	(100,447)	–
March 7, 2018	March 7, 2018 to April 3, 2019	4.50	–	100,446	–	–	100,446
March 26, 2018	March 26, 2018 to April 3, 2018	4.52	–	1,305,804	–	(1,305,804)	–
March 26, 2018	March 26, 2018 to April 3, 2019	4.52	–	1,305,804	–	–	1,305,804
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	1,990,968	(2,444)	(669,058)*	1,319,466
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	2,349,324	(2,444)	(669,057)*	1,677,823
April 19, 2018	April 19, 2018 to April 10, 2019	4.80	–	723,800	–	–	723,800
April 19, 2018	April 19, 2018 to April 10, 2020	4.80	–	723,799	–	–	723,799
Total			6,715,129	8,600,392	(4,888)	(7,649,601)	7,661,032
Weighted average fair value on the date of award (HK$)			4.77	4.64	4.66	4.75	4.65
PCCW Subscription Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,682,495	–	(23,845)	(1,658,650)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–	–	(1,522)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,992,446	–	(28,097)	(1,964,349)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,991,035	–	(159,891)	(1,683)*	1,829,461
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	2,055,115	(119,366)	(1,751)*	1,933,998
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	2,053,575	(119,226)	(1,751)*	1,932,598
Total			5,667,498	4,108,690	(450,425)	(3,629,706)	5,696,057
Weighted average fair value on the date of award (HK$)			4.72	4.66	4.65	4.79	4.64

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2018	Awarded	Forfeited	Vested	At December 31, 2018
			2018 Number of Share Stapled Units				
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	271,023	–	(4,784)	(266,239)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	256,341	–	–	(256,341)	–
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	712,937	–	(6,799)	(706,138)	–
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	712,442	–	(41,625)	–	670,817
March 7, 2018	March 7, 2018 to April 3, 2018	9.71	–	45,136	–	(45,136)	–
March 7, 2018	March 7, 2018 to April 3, 2019	9.71	–	45,135	–	–	45,135
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	–	628,644	(22,821)	–	605,823
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	–	628,125	(22,757)	–	605,368
Total			1,952,743	1,347,040	(98,786)	(1,273,854)	1,927,143
Weighted average fair value on the date of award (HK$)			10.28	9.92	10.03	10.40	9.97
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	613,158	–	(5,951)	(607,207)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	–	–	(426,187)	–
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	1,175,589	–	(6,013)	(1,169,576)	–
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	1,174,628	–	(31,184)	(303,277)*	840,167
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	–	1,247,635	(32,829)	(310,648)*	904,158
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	–	1,246,543	(32,757)	(310,647)*	903,139
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	–	100,000	–	–	100,000
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	–	100,000	–	–	100,000
October 5, 2018	October 5, 2018 to October 5, 2019	10.34	–	15,000	–	–	15,000
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	–	15,000	–	–	15,000
November 5, 2018	November 5, 2018 to November 5, 2019	10.66	–	15,000	–	–	15,000
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	–	15,000	–	–	15,000
Total			3,389,562	2,754,178	(108,734)	(3,127,542)	2,907,464
Weighted average fair value on the date of award (HK$)			10.30	9.99	10.02	10.30	10.01

* The PCCW Shares/Share Stapled Units were vested before the respective vesting date pursuant to the delegated authority of the relevant board committees on compassionate grounds.

(Amount expressed in Hong Kong dollars unless otherwise stated)

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

			2019 Number of PCCW Shares				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2019	Awarded	Forfeited	Vested	At December 31, 2019
PCCW Purchase Scheme (PCCW Shares)							
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,809,894	–	(3,595)	(1,806,299)	–
March 7, 2018	March 7, 2018 to April 3, 2019	4.50	100,446	–	–	(100,446)	–
March 26, 2018	March 26, 2018 to April 3, 2019	4.52	1,305,804	–	–	(1,305,804)	–
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	1,319,466	–	–	(1,319,466)	–
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	1,677,823	–	–	–	1,677,823
April 19, 2018	April 19, 2018 to April 10, 2019	4.80	723,800	–	–	(723,800)	–
April 19, 2018	April 19, 2018 to April 10, 2020	4.80	723,799	–	–	–	723,799
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	–	1,662,117	–	–	1,662,117
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	–	1,985,138	–	–	1,985,138
June 14, 2019	June 14, 2019 to June 14, 2019	4.56	–	241,225	–	(241,225)	–
June 14, 2019	June 14, 2019 to April 17, 2020	4.56	–	241,225	–	–	241,225
Total			7,661,032	4,129,705	(3,595)	(5,497,040)	6,290,102
Weighted average fair value on the date of award (HK$)			4.65	4.72	4.60	4.62	4.72
PCCW Subscription Scheme (PCCW Shares)							
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,829,461	–	(25,809)	(1,803,652)	–
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	1,933,998	–	(27,462)	(1,906,536)	–
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	1,932,598	–	(106,863)	–	1,825,735
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	–	2,000,698	(89,419)	–	1,911,279
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	–	1,999,097	(89,318)	–	1,909,779
Total			5,696,057	3,999,795	(338,871)	(3,710,188)	5,646,793
Weighted average fair value on the date of award (HK$)			4.64	4.74	4.70	4.63	4.71

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

Date of award	Vesting period	Fair value on the date of award HK$	2019 Number of Share Stapled Units At January 1, 2019	Awarded	Forfeited	Vested	At December 31, 2019
PCCW Purchase Scheme (Share Stapled Units)							
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	670,817	–	(4,849)	(665,968)	–
March 7, 2018	March 7, 2018 to April 3, 2019	9.71	45,135	–	–	(45,135)	–
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	605,823	–	(5,269)	(600,554)	–
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	605,368	–	(26,560)	–	578,808
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	–	381,717	(18,777)	–	362,940
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	–	381,236	(18,728)	–	362,508
Total			1,927,143	762,953	(74,183)	(1,311,657)	1,304,256
Weighted average fair value on the date of award (HK$)			9.97	12.38	11.18	9.98	11.30
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	840,167	–	(8,539)	(831,628)	–
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	904,158	–	(7,463)	(896,695)	–
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	903,139	–	(22,920)	–	880,219
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	100,000	–	–	(100,000)	–
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	100,000	–	–	–	100,000
October 5, 2018	October 5, 2018 to October 5, 2019	10.34	15,000	–	–	(15,000)	–
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	15,000	–	–	–	15,000
November 5, 2018	November 5, 2018 to November 5, 2019	10.66	15,000	–	–	(15,000)	–
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	15,000	–	–	–	15,000
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	–	208,846	–	–	208,846
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	–	208,839	–	–	208,839
Total			2,907,464	417,685	(38,922)	(1,858,323)	1,427,904
Weighted average fair value on the date of award (HK$)			10.01	12.38	9.96	10.02	10.70
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)							
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	–	569,169	(15,718)	–	553,451
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	–	568,030	(15,664)	–	552,366
Total			–	1,137,199	(31,382)	–	1,105,817
Weighted average fair value on the date of award (HK$)			–	12.38	12.38	–	12.38

(Amount expressed in Hong Kong dollars unless otherwise stated)

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

The fair values of the PCCW Shares and the Share Stapled Units awarded during the year on the dates of award are measured by the respective quoted market prices of the PCCW Shares and the Share Stapled Units at the respective award dates.

The PCCW Shares and the Share Stapled Units unvested had a weighted average remaining vesting period at the end of the year as follows:

	2018	**2019**
PCCW Purchase Scheme (PCCW Shares)	0.58 year	**0.64 year**
PCCW Subscription Scheme (PCCW Shares)	0.61 year	**0.63 year**
PCCW Purchase Scheme (Share Stapled Units)	0.58 year	**0.57 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.64 year	**0.44 year**
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)	–	**0.80 year**

c. Share-based payment transactions with cash alternatives of PCPD

i. On May 23, 2013, the PCPD Group entered into the supporting agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the PCPD Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388% (subject to certain downward adjustments) of the share capital in an indirect wholly-owned subsidiary of PCPD ("Melati") (the "Supporter Shares") and by assignment of the shareholder's loan to Melati (the "Supporter Shareholder's Loans").

In addition, the PCPD Group granted to the Supporter a right (but not an obligation) to require the PCPD Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans are assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans (the "Supporter Put Option"). The Supporter Put Option was granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

34 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

c. Share-based payment transactions with cash alternatives of PCPD *(continued)*

i. *(continued)*

A financial liability would be recognized in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. PCPD management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which was minimal as at December 31, 2019, therefore the fair value of the Supporter Shares was nil (2018: nil).

ii. On May 23, 2013, the PCPD Group entered into the investor subscription agreement and the investor loan purchase agreement with an independent third party (the "Investor"), the PCPD Group will allot to the Investor 9.99% shares of an indirect wholly-owned subsidiary of PCPD ("Rafflesia") (the "Investor Shares") and assign to the Investor 9.99% of all the unsecured and non-interest bearing shareholder's loan to Rafflesia (the "Investor Shareholder's Loans") at the time when the occupation permit of the premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99% of the PCPD Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99%) of the total investment cost incurred by the PCPD Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the PCPD Group granted to the Investor a right (but not an obligation) to require the PCPD Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans (the "Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realize its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option was granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US$1.

PCPD management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which was minimal as at December 31, 2019, therefore the fair value of the Investor Shares was nil (2018: nil).

35 RESERVES

In HK$ million	2018								
	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Financial assets at FVOCI reserve	Other reserves	Retained profits	Total
THE GROUP									
At January 1, 2018	(9)	75	(678)	201	(138)	163	(113)	6,735	6,236
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	897	897
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	(30)	(30)
Changes in the fair value of equity instruments at FVOCI	–	–	–	–	–	(81)	–	–	(81)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Translation exchange differences:									
– exchange differences on translating foreign operations	–	–	(299)	–	–	–	–	–	(299)
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	(106)	–	–	–	–	(106)
– transfer from equity to consolidated income statement	–	–	–	17	–	–	–	–	17
Costs of hedging	–	–	–	–	27	–	–	–	27
Total comprehensive income/(loss) for the year	–	–	(299)	(89)	27	(81)	–	867	425
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	(26)	–	–	–	–	–	–	–	(26)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(20)	(20)
Employee share-based compensation	–	83	–	–	–	–	–	–	83
Vesting of PCCW Shares and Share Stapled Units under share award schemes	33	(79)	–	–	–	–	–	37	(9)
Distributions for Share Stapled Units granted under share award schemes	–	(2)	–	–	–	–	–	–	(2)
Dividend paid in respect of the previous year	–	(2)	–	–	–	–	–	(1,633)	(1,635)
Dividend declared and paid in respect of the current year	–	(1)	–	–	–	–	–	(687)	(688)
Total contributions by and distributions to equity holders	7	(1)	–	–	–	–	–	(2,303)	(2,297)
Acquisition of subsidiaries	–	–	–	–	–	–	(223)	–	(223)
Total changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	–	–	–	–	(223)	–	(223)
Total transactions with equity holders	7	(1)	–	–	–	–	(223)	(2,303)	(2,520)
At December 31, 2018	(2)	74	(977)	112	(111)	82	(336)	5,299	4,141

35 RESERVES *(CONTINUED)*

In HK$ million	2018				
	Employee share-based compensation reserve	Hedging reserve	Costs of hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2018	20	40	(31)	18,884	18,913
Total comprehensive income/(loss) for the year					
Profit for the year	–	–	–	2,543	2,543
Other comprehensive income/(loss)					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	(37)	–	–	(37)
Costs of hedging	–	–	8	–	8
Total comprehensive income/(loss) for the year	–	(37)	8	2,543	2,514
Transactions with equity holders					
Dividend paid in respect of the previous year	–	–	–	(1,635)	(1,635)
Dividend declared and paid in respect of the current year	–	–	–	(688)	(688)
Total transactions with equity holders	–	–	–	(2,323)	(2,323)
At December 31, 2018	20	3	(23)	19,104	19,104

35 RESERVES *(CONTINUED)*

In HK$ million	2019								
	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Financial assets at FVOCI reserve	Other reserves	Retained profits	Total
THE GROUP									
At January 1, 2019	(2)	74	(977)	112	(111)	82	(336)	5,299	4,141
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	681	681
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	13	13
Changes in the fair value of equity instruments at FVOCI	–	–	–	–	–	(54)	–	–	(54)
Disposal of equity instruments at FVOCI	–	–	–	–	–	(28)	–	28	–
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Translation exchange differences:									
– exchange differences on translating foreign operations	–	–	184	–	–	–	–	–	184
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	135	–	–	–	–	135
– transfer from equity to consolidated income statement	–	–	–	78	–	–	–	–	78
Costs of hedging	–	–	–	–	9	–	–	–	9
Total comprehensive income/(loss) for the year	–	–	184	213	9	(82)	–	722	1,046
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	(44)	–	–	–	–	–	–	–	(44)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(47)	(47)
Employee share-based compensation	–	59	–	–	–	–	–	–	59
Vesting of PCCW Shares and Share Stapled Units under share award schemes	28	(60)	–	–	–	–	–	29	(3)
Distributions/dividends for PCCW Shares and Share Stapled Units granted under share award schemes	–	(6)	–	–	–	–	–	–	(6)
Dividend paid in respect of the previous year	–	–	–	–	–	–	–	(1,723)	(1,723)
Dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	(708)	(708)
Total contributions by and distributions to equity holders	(16)	(7)	–	–	–	–	–	(2,449)	(2,472)
Accretion on put option to the non-controlling shareholder of an indirect non-wholly owned subsidiary	–	–	–	–	–	–	(16)	–	(16)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(1)	–	–	–	–	(114)	(115)
Total changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(1)	–	–	–	(16)	(114)	(131)
Total transactions with equity holders	(16)	(7)	(1)	–	–	–	(16)	(2,563)	(2,603)
At December 31, 2019	(18)	67	(794)	325	(102)	–	(352)	3,458	2,584

35 RESERVES *(CONTINUED)*

In HK$ million	2019				
	Employee share-based compensation reserve	Hedging reserve	Costs of hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2019	20	3	(23)	19,104	19,104
Total comprehensive income for the year					
Profit for the year	–	–	–	2,593	2,593
Other comprehensive income/(loss)					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	2	–	–	2
– transfer from equity to income statement	–	(1)	–	–	(1)
Costs of hedging	–	–	2	–	2
Total comprehensive income for the year	–	1	2	2,593	2,596
Transactions with equity holders					
Dividend paid in respect of the previous year	–	–	–	(1,724)	(1,724)
Dividend declared and paid in respect of the current year	–	–	–	(709)	(709)
Total transactions with equity holders	–	–	–	(2,433)	(2,433)
At December 31, 2019	20	4	(21)	19,264	19,267

The Company had total distributable reserves of HK$19,264 million as at December 31, 2019 (2018: HK$19,104 million).

36 DEFERRED INCOME TAX

As at December 31, 2019, deferred income tax liabilities/(assets) represents:

In HK$ million	2018	**2019**
Deferred income tax assets	(1,194)	**(1,089)**
Deferred income tax liabilities	3,674	**3,933**
	2,480	**2,844**

a. Movements in deferred income tax liabilities/(assets) were as follows:

In HK$ million	2018					
	Accelerated tax depreciation and amortization	Valuation adjustment resulting from acquisition of subsidiaries	Revaluation of properties	Tax losses	Others	Total
Beginning of year	3,141	237	(1)	(1,384)	–	1,993
Charged/(credited) to the consolidated income statement *(note 12(a))*	543	(35)	1	(24)	1	486
Additions upon business combinations	6	–	–	–	–	6
Disposal of interests in subsidiaries	(2)	–	–	–	–	(2)
Exchange differences	2	–	–	(5)	–	(3)
End of year	3,690	202	–	(1,413)	1	2,480

In HK$ million	**2019**					
	Accelerated tax depreciation and amortization	**Valuation adjustment resulting from acquisition of subsidiaries**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**3,690**	**202**	**–**	**(1,413)**	**1**	**2,480**
Charged/(credited) to the consolidated income statement *(note 12(a))*	**512**	**(36)**	**–**	**(142)**	**13**	**347**
Additions upon business combinations	**2**	**15**	**–**	**–**	**–**	**17**
End of year	**4,204**	**181**	**–**	**(1,555)**	**14**	**2,844**

36 DEFERRED INCOME TAX *(CONTINUED)*

b. Deferred income tax assets are recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. As at December 31, 2019, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$10,972 million (2018: HK$9,295 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$163 million (2018: HK$87 million) and HK$431 million (2018: HK$475 million) will expire within 1 to 5 years and after 5 years from December 31, 2019 respectively.

The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

37 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2019, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	2018			**2019**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Payable within a period						
– not exceeding one year	173	7	180	**195**	**14**	**209**
– over one year, but not exceeding two years	123	19	142	**145**	**25**	**170**
– over two years, but not exceeding five years	196	45	241	**192**	**42**	**234**
– over five years	38	12	50	**190**	**29**	**219**
	530	83	613	**722**	**110**	**832**
Less: amounts payable within one year included under current liabilities	(173)	(7)	(180)	**(195)**	**(14)**	**(209)**
Non-current portion	357	76	433	**527**	**96**	**623**

38 OTHER LONG-TERM LIABILITIES

a. OTT Preference Shares

As at December 31, 2019, other long-term liabilities included a liability of HK$829 million (2018: HK$823 million) arising from the issuance of the OTT Preference Shares during the year ended December 31, 2017 as described below:

On September 25, 2017, the Group issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares") in the capital of a then indirect wholly-owned subsidiary of the Company, representing approximately 18% of its enlarged issued share capital, for a total consideration of US$110 million (equivalent to approximately HK$859 million). The OTT Preference Shares are redeemable at the original subscription price, at the earliest on September 25, 2022, if certain contingent event has not occurred by then. The OTT Preference Shares are entitled to discretionary dividends and also have certain preference in liquidation or upon an initial public offering or sale of business.

The OTT Preference Shares contain a liability and an equity component, and are accordingly treated as a compound financial instrument. The liability component further contains embedded derivatives ("OTT Preference Shares Derivative"), which are accounted for as derivative financial instruments in accordance with the accounting policy set out in note 2(q), and a host liability ("OTT Preference Shares Liability"), which is recorded as other long-term liabilities in the consolidated statement of financial position on an amortized cost basis until being extinguished on conversion or redemption. The valuation of the OTT Preference Shares Derivative and the OTT Preference Shares Liability on the date of issuance of the OTT Preference Shares was HK$33 million and HK$808 million respectively.

The subsidiary also granted an option ("OTT Preference Shares Option") to one of the investors to subscribe for up to a further 2,000,000 OTT Preference Shares at an exercise price of US$10.00 per option share. The OTT Preference Shares Option is exercisable on or before the option expiry date within nine months of the issuance of the OTT Preference Shares. Accordingly, the Group recognized a derivative financial instrument of HK$18 million, in accordance with the accounting policy set out in note 2(q), on the date of issuance of the OTT Preference Shares. The OTT Preference Shares Option lapsed without being exercised during the year ended December 31, 2018.

During the year ended December 31, 2019, the Group recognized a finance cost on the OTT Preference Shares Liability of HK$10 million (2018: HK$10 million), and fair value gains of HK$15 million (2018: an immaterial amount) and nil (2018: HK$15 million) on the OTT Preference Shares Derivative, and the OTT Preference Shares Option in other gains, net in the consolidated income statement, respectively.

Refer to note 31 for details of the derivative financial instruments.

b. Put option arrangement

As at December 31, 2019, other long-term liabilities included a liability of HK$239 million (2018: HK$223 million) arising from the put option written for the acquisition of Jumbo Fame Global Limited and its subsidiaries during the year ended December 31, 2018. Refer to note 45(c)(v) for details of the put option.

The present value of the amount that could become payable upon the exercise of the put option amounted to HK$223 million was initially recognized as other long-term liabilities with a corresponding charge directly to other reserve. The liability is subsequently accreted up to the amount that could become payable at the date at which the put option first become exercisable. In the event that the put option expires unexercised, the liability is derecognized with a corresponding adjustment to equity. During the year ended December 31, 2019, accretion on put option of HK$16 million (2018: an immaterial amount) was recognized in other reserve.

39 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2018	**2019**
Profit before income tax	4,184	**3,811**
Adjustments for:		
Interest income	(134)	**(86)**
Finance costs	1,899	**1,958**
Other gains	–	**(2)**
Gain on disposal of subsidiaries	(276)	**–**
Loss on disposal of an associate	–	**2**
Net gain on purchase of guaranteed notes	–	**(19)**
Fair value gains on financial assets at FVPL	(300)	**(49)**
Fair value movement of derivative financial instruments	(15)	**(12)**
Dividend income from financial assets at FVOCI	(44)	**(49)**
Dividend income from financial assets at FVPL	(1)	**–**
Fair value gain on Network Capacity Access Rights	–	**(369)**
Provision for impairment of interests in joint ventures	2	**–**
Loss on disposal of property, plant and equipment, net	6	**7**
Impairment loss for trade receivables	251	**318**
Provision for/(write-back of provision for) inventory obsolescence, net	10	**(2)**
Depreciation of property, plant and equipment	1,588	**1,450**
Depreciation of right-of-use assets	1,922	**1,915**
Amortization of land lease premium – interests in leasehold land	18	**17**
Amortization of intangible assets	1,996	**2,304**
Amortization of fulfillment costs	422	**500**
Amortization of customer acquisition costs	1,045	**1,036**
Share of results of associates and joint ventures	(68)	**(33)**
Increase in treasury stock for the purchases of PCCW Shares under share award scheme	(26)	**(44)**
Decrease in equity for the purchases of Share Stapled Units under share award schemes	(30)	**(65)**
Share-based compensation expenses	96	**68**
Pension cost for defined benefit retirement schemes	2	**3**
(Increase)/decrease in operating assets		
– properties held for/under development/held for sale	(2,559)	**(564)**
– fulfillment costs	(413)	**(516)**
– customer acquisition costs	(1,055)	**(1,000)**
– contract assets	451	**(116)**
– other non-current assets	(230)	**(90)**
– sales proceeds held in stakeholders' accounts	1	**1**
– inventories	(378)	**425**
– trade receivables, prepayments, deposits and other current assets	(683)	**60**
– amounts due from related companies	2	**6**
– restricted cash	(33)	**(31)**
(Decrease)/increase in operating liabilities		
– trade payables, accruals and other payables	(918)	**413**
– amount payable to the Government under the Cyberport Project Agreement	1	**3**
– amounts due to related companies	–	**2**
– advances from customers	102	**26**
– contract liabilities	302	**101**
– defined benefit retirement schemes liability	(2)	**(5)**
– other long-term liabilities	60	**(38)**
CASH GENERATED FROM OPERATIONS	7,195	**11,336**
Interest received	116	**66**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid*	(695)	**(185)**
– overseas profits tax paid	(71)	**(84)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	6,545	**11,133**

* As at December 31, 2019, certain subsidiaries of the Group had not yet received the Hong Kong profits tax assessments for the tax assessment year 2018/19, such that any corresponding tax charge settlement would be deferred to upcoming financial years.

39 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities

Movements of financial (assets)/liabilities arising from financing activities are as follows:

In HK$ million	2018							
	Restricted cash	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Lease liabilities	Borrowings	Derivative financial instruments, net	OTT Preference Shares Liability (included in other long-term liabilities)	Total
As at January 1, 2018	(149)	(14)	297	3,451	47,235	71	811	51,702
Cash flows in financing activities								
New borrowings raised	–	–	–	–	15,210	–	–	15,210
Finance costs (paid)/received	–	–	(1,376)	–	–	77	–	(1,299)
Repayments of borrowings	–	–	–	–	(12,543)	–	–	(12,543)
Payment for lease liabilities (including interest)	–	–	–	(2,013)	–	–	–	(2,013)
Increase in restricted cash	(221)	–	–	–	–	–	–	(221)
Classified as cash flows in investing activities								
Purchase of a foreign currency option	–	–	–	–	–	(4)	–	(4)
Loan repayment in relation to licence fee *(note 41(b)(i))*	–	–	–	–	(130)	–	–	(130)
Classified as cash flows in operating activities								
Increase in restricted cash	(33)	–	–	–	–	–	–	(33)
Non-cash movements	–	4	1,438	3,041	143	(37)	12	4,601
As at December 31, 2018	(403)	(10)	359	4,479	49,915	107	823	55,270

b. Movements of financial (assets)/liabilities arising from financing activities *(continued)*

In HK$ million	2019							
	Restricted cash	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Lease liabilities	Borrowings	Derivative financial instruments, net	OTT Preference Shares Liability (included in other long-term liabilities)	Total
As at January 1, 2019	(403)	(10)	359	4,479	49,915	107	823	55,270
Cash flows in financing activities								
New borrowings raised	–	–	(8)	–	22,218	–	–	22,210
Finance costs (paid)/received	–	(7)	(1,621)	–	–	218	–	(1,410)
Repayments of borrowings	–	–	–	–	(16,392)	–	–	(16,392)
Purchase of guaranteed notes	–	–	–	–	(528)	–	–	(528)
Payment for lease liabilities (including interest)	–	–	–	(2,013)	–	–	–	(2,013)
Increase in restricted cash	(274)	–	–	–	–	–	–	(274)
Classified as cash flows in investing activities								
Purchase of a foreign currency option	–	–	–	–	–	(6)	–	(6)
Proceeds from termination of a foreign currency option	–	–	–	–	–	8	–	8
Loan repayment in relation to licence fee *(note 41(b)(i))*	–	–	–	–	(130)	–	–	(130)
Classified as cash flows in operating activities								
Increase in restricted cash	(31)	–	–	–	–	–	–	(31)
Non-cash movements	(1)	(7)	1,645	1,627	(50)	(545)	6	2,675
As at December 31, 2019	(709)	(24)	375	4,093	55,033	(218)	829	59,379

c. Analysis of cash and cash equivalents

In HK$ million	2018	2019
Total cash and bank balances	7,764	**6,531**
Less: short-term deposits	(604)	**(486)**
Less: restricted cash	(403)	**(709)**
Cash and cash equivalents as at December 31,	6,757	**5,336**

40 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

41 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK$ million			2018		
	Financial assets at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Derivatives used for hedging	Total
Non-current assets					
Financial assets at FVOCI	–	1,102	–	–	1,102
Financial assets at FVPL	–	–	731	–	731
Derivative financial instruments*	–	–	–	152	152
Other non-current assets (excluding prepayments)	146	–	–	–	146
Restricted cash	217	–	–	–	217
	363	1,102	731	152	2,348
Current assets					
Sale proceeds held in stakeholders' accounts	507	–	–	–	507
Prepayments, deposits and other current assets (excluding prepayments)	2,697	–	–	–	2,697
Trade receivables, net	4,799	–	–	–	4,799
Amounts due from related companies	110	–	–	–	110
Derivative financial instruments	–	–	4	–	4
Restricted cash	186	–	–	–	186
Short-term deposits	604	–	–	–	604
Cash and cash equivalents	6,757	–	–	–	6,757
	15,660	–	4	–	15,664
Total	16,023	1,102	735	152	18,012

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2018				
	Derivatives used for hedging	Derivatives at FVPL	Contingent consideration payable	Other financial liabilities at amortized cost	Total
Current liabilities					
Short-term borrowings	–	–	–	(608)	(608)
Trade payables	–	–	–	(1,952)	(1,952)
Accruals and other payables	–	–	(15)	(6,660)	(6,675)
Amount payable to the Government under the Cyberport Project Agreement	–	–	–	(322)	(322)
Carrier licence fee liabilities	–	–	–	(173)	(173)
Amounts due to related companies	–	–	–	(1)	(1)
Lease liabilities	–	–	–	(1,608)	(1,608)
	–	–	(15)	(11,324)	(11,339)
Non-current liabilities					
Long-term borrowings	–	–	–	(49,307)	(49,307)
Derivative financial instruments	(234)	(29)	–	–	(263)
Carrier licence fee liabilities	–	–	–	(357)	(357)
Lease liabilities	–	–	–	(2,871)	(2,871)
Other long-term liabilities	–	–	(35)	(2,277)	(2,312)
	(234)	(29)	(35)	(54,812)	(55,110)
Total	(234)	(29)	(50)	(66,136)	(66,449)

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2019				
	Financial assets at amortized cost	**Financial assets at FVOCI**	**Financial assets at FVPL**	**Derivatives used for hedging**	**Total**
Non-current assets					
Financial assets at FVOCI	–	**124**	–	–	**124**
Financial assets at FVPL	–	–	**817**	–	**817**
Derivative financial instruments*	–	–	–	**284**	**284**
Other non-current assets (excluding prepayments)	**337**	–	–	–	**337**
	337	**124**	**817**	**284**	**1,562**
Current assets					
Sale proceeds held in stakeholders' accounts	**506**	–	–	–	**506**
Prepayments, deposits and other current assets (excluding prepayments)	**2,532**	–	–	–	**2,532**
Trade receivables, net	**4,616**	–	–	–	**4,616**
Amounts due from related companies	**116**	–	–	–	**116**
Derivative financial instruments	–	–	–	**6**	**6**
Restricted cash	**709**	–	–	–	**709**
Short-term deposits	**486**	–	–	–	**486**
Cash and cash equivalents	**5,336**	–	–	–	**5,336**
	14,301	–	–	**6**	**14,307**
Total	**14,638**	**124**	**817**	**290**	**15,869**

* As at December 31, 2019, derivative financial instruments classified as non-current liabilities of HK$4 million (2018: non-current assets of HK$15 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$470 million (approximately HK$3,686 million) (2018: US$376 million (approximately HK$2,905 million)) were designated as cash flow hedges of US$300 million zero coupon guaranteed notes due 2030. The US$300 million guaranteed notes may be redeemed at the option of the Group on January 15, 2025 (2018: January 15, 2020) at an early redemption amount of US$470 million (2018: US$376 million).

As at December 31, 2018, a derivative financial instrument classified as non-current assets of HK$4 million related to a foreign exchange forward contract with notional contract amount of US$128 million (approximately HK$987 million) was designated as cash flow hedges of US$100 million zero coupon guaranteed notes due 2030. The US$100 million guaranteed notes may be redeemed at the option of the Group on May 20, 2020 at an early redemption amount of US$128 million. The financial instrument was unwound during the year ended December 31, 2019.

Refer to notes 29(c), 29(f) and 31(a) for details of the guaranteed notes and the foreign exchange forward contracts respectively.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2019				
	Derivatives used for hedging	Derivatives at FVPL	Contingent consideration payable	Other financial liabilities at amortized cost	Total
Current liabilities					
Short-term borrowings	–	–	–	(1,528)	(1,528)
Trade payables	–	–	–	(2,746)	(2,746)
Accruals and other payables	–	–	(37)	(6,362)	(6,399)
Amount payable to the Government under the Cyberport Project Agreement	–	–	–	(325)	(325)
Carrier licence fee liabilities	–	–	–	(195)	(195)
Amounts due to related companies	–	–	–	(3)	(3)
Lease liabilities	–	–	–	(1,376)	(1,376)
	–	–	(37)	(12,535)	(12,572)
Non-current liabilities					
Long-term borrowings	–	–	–	(53,505)	(53,505)
Derivative financial instruments	(58)	(14)	–	–	(72)
Carrier licence fee liabilities	–	–	–	(527)	(527)
Lease liabilities	–	–	–	(2,717)	(2,717)
Other long-term liabilities	–	–	–	(2,688)	(2,688)
	(58)	(14)	–	(59,437)	(59,509)
Total	(58)	(14)	(37)	(71,972)	(72,081)

Exposure to credit, liquidity and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables, contract assets, amounts due from related companies, interest receivable, investments in debt instruments, derivative financial instruments, and other receivables. Management has policies in place and exposure to these credit risks is monitored on an ongoing basis.

The Group's normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2018 and 2019, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 28(e).

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at December 31, 2018 and 2019 and the Group made no write-offs or provision for these contract assets during the years ended December 31, 2018 and 2019.

Investments in debt instruments, amounts due from related companies and other receivables are considered to have low credit risk. These assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2018 and 2019, investments in debt instruments, amounts due from related companies and other receivables were fully performing.

Derivative financial instruments, interest receivable and cash and cash equivalents are considered to have low credit risk. These assets are executed with creditworthy financial institutions or investment counterparties and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 43, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Refer to note 43 for details.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

The following tables detail the remaining contractual maturities at the end of the reporting periods of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

In HK$ million	2018					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(611)	–	–	–	(611)	(608)
Trade payables	(1,952)	–	–	–	(1,952)	(1,952)
Accruals and other payables	(6,675)	–	–	–	(6,675)	(6,675)
Amount payable to the Government under the Cyberport Project Agreement	(322)	–	–	–	(322)	(322)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(1)	–	–	–	(1)	(1)
Lease liabilities	(1,621)	–	–	–	(1,621)	(1,608)
	(11,362)	–	–	–	(11,362)	(11,339)
Non-current liabilities						
Long-term borrowings *(note i)*	(1,356)	(4,612)	(34,269)	(18,526)	(58,763)	(49,307)
Derivative financial instruments *(note ii)*	(18)	(22)	(50)	(173)	(263)	(263)
Carrier licence fee liabilities	–	(142)	(241)	(50)	(433)	(357)
Lease liabilities	–	(1,009)	(1,492)	(655)	(3,156)	(2,871)
Other long-term liabilities *(note iii)*	(13)	(70)	(1,934)	(1,262)	(3,279)	(2,312)
	(1,387)	(5,855)	(37,986)	(20,666)	(65,894)	(55,110)
Total	(12,749)	(5,855)	(37,986)	(20,666)	(77,256)	(66,449)

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	2019					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(1,538)	–	–	–	(1,538)	(1,528)
Trade payables	(2,746)	–	–	–	(2,746)	(2,746)
Accruals and other payables	(6,399)	–	–	–	(6,399)	(6,399)
Amount payable to the Government under the Cyberport Project Agreement	(325)	–	–	–	(325)	(325)
Carrier licence fee liabilities	(209)	–	–	–	(209)	(195)
Amounts due to related companies	(3)	–	–	–	(3)	(3)
Lease liabilities	(1,480)	–	–	–	(1,480)	(1,376)
	(12,700)	–	–	–	(12,700)	(12,572)
Non-current liabilities						
Long-term borrowings *(note i)*	(1,444)	(6,675)	(32,891)	(22,529)	(63,539)	(53,505)
Derivative financial instruments *(note ii)*	9	14	(59)	(28)	(64)	(72)
Carrier licence fee liabilities	–	(170)	(234)	(219)	(623)	(527)
Lease liabilities	–	(1,012)	(1,385)	(530)	(2,927)	(2,717)
Other long-term liabilities *(note iii)*	(27)	(10)	(1,913)	(1,248)	(3,198)	(2,688)
	(1,462)	(7,853)	(36,482)	(24,554)	(70,351)	(59,509)
Total	(14,162)	(7,853)	(36,482)	(24,554)	(83,051)	(72,081)

i. As at December 31, 2019, bank borrowings of HK$1,560 million (2018: HK$1,690 million) included in long-term borrowings were outstanding for financing a 15-year 3G spectrum utilization fee paid upfront by the Group in 2016.

ii. As at December 31, 2019, derivative financial instruments included HK$21 million (2018: nil) 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 floating-to-fixed interest rate swap contract with a notional contract amount of HK$1,000 million (2018: nil).

iii. As at December 31, 2019, other long-term liabilities included HK$304 million (2018: HK$232 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 a notional contract amount of EUR200 million (approximately HK$1,665 million) (2018: EUR200 million (approximately HK$1,665 million)) and included HK$211 million (2018: HK$43 million) of long-term interest payable, which related to interest drawn under the arrangements with banks to receive agreed amounts by installments to settle interest payments of fixed-to-fixed cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2018: US$500 million (approximately HK$3,879 million)). Refer to notes 29(e), 29(b) and 31(a) for details of the guaranteed notes and the derivative financial instruments respectively.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts, foreign currency options and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Group, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposure. Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

Majority of the Group's borrowings are denominated in Hong Kong dollars, United States dollars and Euro. As at December 31, 2018 and 2019, majority of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. Cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2019 with an aggregate notional contract amount of US$3,020 million (approximately HK$23,505 million) (2018: US$2,553 million (approximately HK$19,787 million)) and EUR200 million (approximately HK$1,665 million) (2018: EUR200 million (approximately HK$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies:

In HK$ million	2018			**2019**		
	United States Dollars	Euro	Renminbi	**United States Dollars**	**Euro**	**Renminbi**
Trade receivables	1,497	194	257	**1,529**	**87**	**232**
Amounts due from related companies	–	–	21	**–**	**–**	**28**
Restricted cash	–	–	1	**–**	**–**	**1**
Cash and cash equivalents	1,691	191	249	**1,180**	**62**	**253**
Short-term borrowings	–	(597)	–	**–**	**–**	**–**
Trade payables	(1,160)	(65)	(104)	**(1,596)**	**(67)**	**(68)**
Lease liabilities	(151)	(8)	(172)	**(114)**	**(14)**	**(51)**
Long-term borrowings	(23,365)	(1,761)	–	**(27,647)**	**(1,713)**	**–**
Gross exposure arising from monetary (liabilities)/assets	(21,488)	(2,046)	252	**(26,648)**	**(1,645)**	**395**
Net monetary assets denominated in respective entities' functional currencies	(354)	(93)	(173)	**(108)**	**(59)**	**(358)**
Borrowings with hedging instruments	18,926	1,761	–	**21,980**	**1,713**	**–**
Overall net exposure	(2,916)	(378)	79	**(4,776)**	**9**	**37**

As at December 31, 2019, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$40 million (2018: HK$24 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2019 would have collectively debited/credited by approximately HK$127 million (2018: HK$115 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2019, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by an immaterial amount (2018: approximately HK$16 million), mainly as a result of foreign exchange losses/gains on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2019 would have collectively debited/credited by approximately HK$45 million (2018: HK$46 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2019, if the Hong Kong dollar had weakened/strengthened by 5% against the Renminbi, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by approximately HK$2 million (2018: HK$3 million).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remained constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis was performed on the same basis for the years ended December 31, 2018 and 2019.

ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under its revolving credit and term loan facilities which are substantially denominated in Hong Kong dollars or in other major foreign currencies with floating rates interest.

The Group has entered into fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings and floating-to-fixed interest rate swap contracts to hedge the cash flow interest rate risk arising from certain floating rate long-term borrowings.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of the cash flow and fair value hedging instruments:

	2018		**2019**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Long-term borrowings	4.88	4,439	**4.84**	**4,893**
Long-term borrowings with hedging instruments	3.89	18,410	**3.79**	**22,130**
Long-term bank borrowings with hedging instruments	1.84	1,492	**2.34**	**6,320**
		24,341		**33,343**
Variable rate borrowings:				
Short-term bank borrowings	0.76	608	**3.34**	**1,528**
Long-term bank borrowings	2.51	22,689	**2.81**	**17,825**
Long-term borrowings with hedging instruments	6.76	2,277	**6.79**	**2,337**
		25,574		**21,690**
Total borrowings		49,915		**55,033**

As at December 31, 2019, if the interest rate on variable rate borrowings had increased/decreased by 50 basis points (2018: 50 basis points), with all other variables held constant, the Group's profit after tax for the year would have decreased/increased by approximately HK$91 million (2018: HK$108 million), mainly as a result of higher/lower interest expense on floating rate borrowings in existence at the end of the reporting period.

The sensitivity analysis above has been determined assuming that the change in interest rate occurred at the end of the reporting period and applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at those dates. The 50 basis points (2018: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2018 and 2019.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least semi-annually against the performance of the associated business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

d. Fair values of financial instruments measured at amortized cost

All financial instruments were carried at amounts not materially different from their fair values as at December 31, 2019 except as follows:

In HK$ million	2018		**2019**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	49,307	48,982	**53,505**	**54,229**

The fair values of long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy.

e. Estimation of fair values

Financial instruments carried at fair value are analyzed by valuation method and the different levels are defined as follows:

– Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

– Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

– Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted securities and equity investments.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the Group's financial assets and liabilities that were measured at fair value:

In HK$ million	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at FVOCI (non-current)				
– Listed securities	1,025	–	–	1,025
– Unlisted securities	–	–	77	77
Financial assets at FVPL (non-current)				
– Listed securities	9	–	–	9
– Unlisted securities	–	–	722	722
Derivative financial instruments (non-current)	–	152	–	152
Derivative financial instruments (current)	–	4	–	4
Total assets	1,034	156	799	1,989
Liabilities				
Contingent consideration payable	–	–	(50)	(50)
Derivative financial instruments (non-current)	–	(234)	(29)	(263)
Total liabilities	–	(234)	(79)	(313)

In HK$ million	**2019**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI (non-current)				
– Unlisted securities	**–**	**–**	**124**	**124**
Financial assets at FVPL (non-current)				
– Unlisted securities	**–**	**–**	**817**	**817**
Derivative financial instruments (non-current)	**–**	**284**	**–**	**284**
Derivative financial instruments (current)	**–**	**6**	**–**	**6**
Total assets	**–**	**290**	**941**	**1,231**
Liabilities				
Contingent consideration payable	**–**	**–**	**(37)**	**(37)**
Derivative financial instruments (non-current)	**–**	**(58)**	**(14)**	**(72)**
Total liabilities	**–**	**(58)**	**(51)**	**(109)**

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

Instruments included in level 1 comprised primarily listed equity investments classified as financial assets at FVOCI and financial assets at FVPL.

Instruments included in level 2 comprised cross currency swap contracts, interest rate swap contracts, foreign currency option and foreign exchange forward contracts classified as derivative financial instruments.

Instruments included in level 3 comprised investments in unlisted instruments classified as financial assets at FVOCI or financial assets at FVPL, liabilities of contingent considerations for acquisition of subsidiaries classified as accruals and other payables or other long-term liabilities, and the OTT Preference Shares Option and the OTT Preference Shares Derivative classified as derivative financial instruments.

Specific valuation techniques used to value financial instruments include:

- In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

- The fair value of the foreign currency option is determined using the Black-Scholes option pricing model. The model's key inputs include the contractual terms of the contract, along with observable inputs, including spot and forward exchange rates, yield curves and the implied volatility.

- The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with the same notional amounts adjusted for maturity differences.

- The fair value of the OTT Preference Shares Derivative is determined using the with and without method, which includes key inputs of the underlying preference share price, a marketability discount and the probability of certain liquidity events.

Investments in unlisted investment funds that are not traded in an active market are valued based on information derived from individual fund reports, or audited reports received from respective fund managers and adjusted by other relevant factors if deemed necessary. For other investments in unlisted instruments, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The key assumptions adopted in the valuation models include market multiples and discount rates which are based on historical patterns and industry trends of comparable companies. The fair values of these Level 3 instruments may differ significantly if there are material changes to the underlying assumptions applied in the relevant fair valuation models.

Key assumptions used for the valuations of these Level 3 instruments were:

i. OTT Preference Shares Derivative

- Underlying OTT Preference Share price: US$10.0 (2018: US$10.0)
- Liquidity discount: 18.0% (2018: 22.0%)

ii. Other unlisted investments

- Market multiples (based on enterprise value/revenue multiples of comparable companies): 1.4 – 1.7 (2018: 2.0 – 2.5)
- Liquidity discount: 12% (2018: 15%)

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2018 and 2019.

There were no material changes in valuation techniques during the years ended December 31, 2018 and 2019.

41 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the changes in level 3 assets/(liabilities):

In HK$ million	2018			
	Financial assets at FVOCI – unlisted securities	Financial assets at FVPL – unlisted securities	Contingent consideration payable	Derivative financial instruments – OTT Preference Shares Option and OTT Preference Shares Derivative
Beginning of year	77	811	(22)	(44)
Additions	–	79	–	–
Additions upon business combinations	–	–	(48)	–
Disposals	–	(436)	–	–
Settlement	–	–	20	–
Fair value movement recognized in other gains, net	–	268	–	15
End of year	77	722	(50)	(29)

In HK$ million	**2019**			
	Financial assets at FVOCI – unlisted securities	**Financial assets at FVPL – unlisted securities**	**Contingent consideration payable**	**Derivative financial instruments – OTT Preference Shares Derivative**
Beginning of year	**77**	**722**	**(50)**	**(29)**
Additions	**47**	**74**	**–**	**–**
Disposals	**–**	**(16)**	**–**	**–**
Settlement	**–**	**–**	**13**	**–**
Fair value movement recognized in other gains, net	**–**	**37**	**–**	**15**
End of year	**124**	**817**	**(37)**	**(14)**

The estimated fair value of level 3 financial assets as at December 31, 2019 was HK$941 million (2018: HK$799 million).

f. Group's valuation process

The Group performs and monitors the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

The main level 3 input used by the Group pertains to the use of recent arm's length transactions, reference to portfolio statements, and reference to other listed instruments that are substantially the same, adjusted for the marketability discount on the Group's investments. The higher the marketability discount, the lower the fair value.

42 COMMITMENTS

a. Capital

As at December 31, 2019, capital commitments authorized and contracted for by nature were as follows:

In HK$ million	2018	**2019**
Investments	16	**411**
Investment properties	18	**18**
Property development projects	919	**116**
Acquisition of property, plant and equipment	2,091	**1,591**
	3,044	**2,136**

b. Committed leases not yet commenced

As at December 31, 2019, the total future lease payments for leases committed but not yet commenced were payable as follows:

Land and buildings

In HK$ million	2018	**2019**
Within 1 year	23	**11**
After 1 year but within 5 years	42	**12**
	65	**23**

Network capacity and equipment

In HK$ million	2018	**2019**
Within 1 year	110	**111**
After 1 year but within 5 years	2	**28**
	112	**139**

c. Others

As at December 31, 2019, the Group had other outstanding commitments as follows:

In HK$ million	2018	**2019**
Purchase of rights to broadcast certain TV content	3,347	**2,621**
Operating expenditure commitments	3,514	**4,037**
	6,861	**6,658**

42 COMMITMENTS *(CONTINUED)*

d. Lease receivables

As at December 31, 2019, the maturity analysis of the total future minimum lease receipts under non-cancellable operating leases is as follows:

In HK$ million	2018	**2019**
Within 1 year	112	**142**
After 1 year but within 2 years	111	**171**
After 2 years but within 3 years	117	**144**
After 3 years but within 4 years	102	**124**
After 4 years but within 5 years	91	**71**
After 5 years	210	**183**
	743	**835**

The Group leases out properties under operating leases. The majority of the leases typically run for periods of 1 to 15 years (2018: 1 to 15 years). None of the leases include material contingent rentals.

43 CONTINGENT LIABILITIES

In HK$ million	2018	**2019**
Performance guarantees	566	**1,093**
Tender guarantees	2	**–**
Payment guarantees	34	**45**
Guarantees given to banks in respect of credit facilities granted to an associate	56	**52**
Guarantees in lieu of cash deposit	49	**49**
Employee compensation	8	**8**
Guarantees indemnity	11	**11**
	726	**1,258**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at December 31, 2019, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

44 BANKING FACILITIES

Aggregate bank loan facilities as at December 31, 2019 was HK$42,595 million (2018: HK$40,112 million) of which the unused facilities amounted to HK$16,685 million (2018: HK$15,092 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2019, the Group was in compliance with the covenants relating to drawn down facilities. Further details of the Group's management of liquidity risk are set out in note 41(b).

Summaries of short-term and long-term borrowings are set out in notes 28(f) and 29 respectively.

Securities pledged for certain banking facilities includes:

In HK$ million	2018	**2019**
Property, plant and equipment	923	**2,563**
Investment properties	–	**3,680**
Properties held for development	2,172	**2,174**
Financial assets at FVOCI	963	**–**
Properties under development/held for sale	770	**1,309**
Restricted cash	221	**496**
Cash and cash equivalents	3	**88**
	5,052	**10,310**

45 BUSINESS COMBINATIONS

a. Acquisition of HCL Insys Pte. Ltd. (now known as PCCW Solutions Insys Pte. Ltd., "Insys") in 2019

Pursuant to the share purchase agreement dated August 6, 2019 and the amendment agreement to the share purchase agreement dated November 14, 2019, the Group completed the acquisition of 100% of the issued share capital of HCL Insys Pte. Ltd. on November 15, 2019 for a total consideration of S$57.6 million. Insys is a company incorporated in Singapore and is a leading IT solutions and outsourcing service provider, offering managed services including end user computing, data center, service desk and networking solutions for customers in Singapore. The acquisition will help accelerate Solutions Business's presence and growth in Singapore.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2020 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2020.

45 BUSINESS COMBINATIONS *(CONTINUED)*

a. Acquisition of HCL Insys Pte. Ltd. (now known as PCCW Solutions Insys Pte. Ltd., "Insys") in 2019 *(continued)*

i. Details of net assets acquired and goodwill in respect of the acquisition of Insys at the acquisition date were as follows:

In HK$ million	Net assets acquired and goodwill
Purchase consideration settled in cash	**332**
Less: fair value of net assets acquired	**(184)**
Goodwill on acquisition	**148**

The goodwill reflects synergies expected from the expanded scale of business with both existing and new customers in Singapore. None of the goodwill is expected to be deductible for tax purposes.

The assets and liabilities of Insys at the acquisition date were as follows:

In HK$ million	Fair value
Property, plant and equipment	**17**
Right-of-use assets	**5**
Intangible assets	**86**
Trade receivables, prepayments, deposits and other current assets	**60**
Contract assets	**30**
Cash and cash equivalents	**109**
Trade payables, accruals and other payables	**(101)**
Lease liabilities	**(5)**
Deferred income tax liabilities	**(17)**
Net assets acquired	**184**

In HK$ million	Net cash outflow
Purchase consideration settled in cash	**332**
Less: cash and cash equivalents acquired	**(109)**
Total net cash outflow for the year ended December 31, 2019	**223**

ii. Acquisition-related costs

Acquisition-related costs of HK$1 million were included in general and administrative expenses in the consolidated income statement for the year ended December 31, 2019.

iii. Revenue and profit contribution

Insys contributed revenue of HK$85 million and profit before income tax of HK$3 million to the Group for the period from the completion date of the acquisition on November 15, 2019 to December 31, 2019. If the acquisition had occurred on January 1, 2019, the revenue and profit before income tax for the year ended December 31, 2019 would have been HK$441 million and HK$7 million, respectively.

b. Acquisition of 北京訊通通信服務有限公司 (Beijing Xun Tong Communications Services Limited*) ("Xun Tong") in 2019

On March 11, 2019, the Group completed the acquisition of 50% equity interests in Xun Tong, a limited liability company established in the PRC. Xun Tong engages in the provision of telecommunications services, internet information services and computer system services. The acquisition aims to facilitate the Group's telecommunications business in the PRC. The aggregate consideration was not material to the Group. Xun Tong is consolidated by the Group as the Group owns more than one half of the voting rights in the board of directors of the company.

* Unofficial company name

c. Acquisition of Jumbo Fame Global Limited and its subsidiaries (together the "Jumbo Group") in 2018

Pursuant to the share purchase agreement dated November 28, 2018, the Group acquired 51% of the total issued share capital in Jumbo Fame Global Limited, a company incorporated in the British Virgin Islands, and its subsidiaries for a total consideration of HK$88 million. The Jumbo Group is a leader in the key opinion leader ("KOL") market in Hong Kong, offering a combination of advertising, video production and event production services. The acquisition will create synergistic value to the Media Business through achieving content diversification and attracting more subscribers and viewers.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date when the Group obtains the majority stake and control of the acquired companies. As of the date of these consolidated financial statements, the purchase price allocation process has been finalized. The fair values of the acquirees' identifiable assets, liabilities and contingent liabilities were concluded to be the same as their provisional amounts as at the date when the Group obtained control of the acquired companies. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2019 is required.

i. Details of net assets acquired and goodwill in respect of the acquisition of the Jumbo Group at the acquisition date were as follows:

In HK$ million	Net assets acquired and goodwill
Purchase consideration settled in cash	40
Consideration payable	48
Aggregate purchase consideration	88
Less: fair value of net assets acquired	(19)
Goodwill on acquisition	69

The goodwill reflects synergies expected from leveraging KOL's network of the Jumbo Group across our Media platforms through achieving content diversification and attracting more subscribers and viewers. None of the goodwill is expected to be deductible for tax purposes.

45 BUSINESS COMBINATIONS *(CONTINUED)*

c. Acquisition of Jumbo Fame Global Limited and its subsidiaries (together the "Jumbo Group") in 2018 *(continued)*

i. Details of net assets acquired and goodwill in respect of the acquisition of the Jumbo Group at the acquisition date were as follows: *(continued)*

The assets and liabilities of the Jumbo Group at the acquisition date were as follows:

In HK$ million	Fair value
Property, plant and equipment	1
Right-of-use assets	5
Intangible assets	36
Trade receivables, prepayments, deposits and other current assets	21
Cash and cash equivalents	1
Trade payables, accruals and other payables	(14)
Lease liabilities – current	(4)
Current income tax liabilities	(2)
Lease liabilities – non-current	(1)
Deferred income tax liabilities	(6)
	37
Non-controlling interests	(18)
Net assets acquired	19

In HK$ million	Net cash outflow
Purchase consideration settled in cash	40
Less: cash and cash equivalents acquired	(1)
Total net cash outflow for the year ended December 31, 2018	39
Settlement of consideration payable for the year ended December 31, 2019	13

ii. Acquisition-related costs

Acquisition-related costs of HK$1 million were included in general and administrative expenses in the consolidated income statement for the year ended December 31, 2018.

iii. Revenue and profit contribution

The Jumbo Group contributed revenue of HK$7 million and profit before income tax of HK$1 million to the Group for the period from the completion date of the acquisition on November 30, 2018 to December 31, 2018. If the acquisition had occurred on January 1, 2018, the revenue and profit before income tax for the year ended December 31, 2018 would have been HK$69 million and HK$15 million, respectively.

45 BUSINESS COMBINATIONS *(CONTINUED)*

c. Acquisition of Jumbo Fame Global Limited and its subsidiaries (together the "Jumbo Group") in 2018 *(continued)*

iv. Contingent consideration

Included in the total consideration was fair value of a contingent consideration of HK$48 million, of which the Group is required to make payments totaling up to a maximum level of HK$257 million subject to achievement of certain financial targets in years 2018 to 2021.

The fair value of the contingent consideration was estimated by applying income approach. The fair value estimates were based on a discount rate of 13% and the assumed probability-adjusted EBITDA of the Jumbo Group. This is a level 3 fair value measurement. The key unobservable assumptions in calculating this EBITDA was the assumed revenue for the period from the acquisition date to December 31, 2021.

During the year ended December 31, 2019, there were no material changes in the estimate of fair value of the contingent consideration.

v. Put option arrangement

The Group has written a put option to the shareholder who owns the remaining 49% equity interests in Jumbo Fame Global Limited. The put option is exercisable upon the achievement of certain financial targets in 2022, entitling the holder to put his/her equity interest to the Group at an option price to be determined by a fixed multiplier to the EBITDA of the Jumbo Group for the year ending December 31, 2021, subject to a cap of HK$285 million. As at December 31, 2019, included in other long-term liabilities was the present value of the amount that could become payable upon the exercise of the put option amounted to HK$239 million (2018: HK$223 million).

46 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT A LOSS OF CONTROL

a. Acquisition of interest in Voxx Media, Inc. and Voxx Media (Hong Kong) Holdings Limited

During the year ended December 31, 2019, the Group acquired the remaining 5.2% equity interests in indirect non-wholly owned subsidiaries, Voxx Media, Inc. and Voxx Media (Hong Kong) Holdings Limited, at a total consideration of HK$62 million. The debit balance of carrying amount of the non-controlling interests on the date of acquisition was HK$43 million. The Group recognized a decrease in equity attributable to the equity holders of the Company of approximate HK$105 million. Immediately after the acquisition, the Group holds approximately 82.0% effective interest each in Voxx Media, Inc. and Voxx Media (Hong Kong) Holdings Limited, representing an increase by approximately 4.3% from that before the acquisition.

b. Acquisition of interest in 盈環網絡技術(上海)有限公司 (HKT Teleservices (China) Limited*)

During the year ended December 31, 2019, the HKT Group acquired the remaining 50% equity interests in its the then indirect non-wholly owned subsidiary, HKT Teleservices (China) Limited, at an aggregate consideration of RMB7 million (equivalent to approximately HK$8 million). The debit balance of carrying amount of the non-controlling interests on the date of acquisition was HK$2 million. The Group recognized a decrease in equity attributable to the equity holders of the Company of HK$10 million. Immediately after the acquisition, the Group holds approximately 52.0% effective interest in HKT Teleservices (China) Limited*, representing an increase by approximately 26.0% from that before the acquisition.

* Unofficial company name

(Amount expressed in Hong Kong dollars unless otherwise stated)

47 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2019

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended standards which are not yet effective for the accounting period ended December 31, 2019 and which have not been early adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	January 1, 2020
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement	January 1, 2020
HKFRS 3 (Revised) (Amendments)	Business Combinations	January 1, 2020
HKFRS 7 (Amendments)	Financial Instruments: Disclosures	January 1, 2020
HKFRS 9 (2014) (Amendments)	Financial Instruments	January 1, 2020
HKFRS 17	Insurance Contracts	January 1, 2021
Conceptual Framework for Financial Reporting 2018		January 1, 2020

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, 2019 and have not been early adopted in these consolidated financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Group.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2019

Results

In HK$ million	2015#	2016#	2017#	2018	**2019**
Continuing operations					
Revenue	39,314	38,384	36,832	38,850	**37,521**
Cost of sales	(18,965)	(17,743)	(18,344)	(20,642)	**(18,907)**
General and administrative expenses	(14,534)	(15,114)	(12,859)	(12,970)	**(13,462)**
Other gains/(losses), net	135	32	(35)	643	**498**
Interest income	87	52	133	134	**86**
Finance costs	(1,634)	(1,429)	(1,636)	(1,899)	**(1,958)**
Share of results of equity accounted entities	37	45	54	68	**33**
Profit before income tax	4,440	4,227	4,145	4,184	**3,811**
Income tax	(447)	(395)	(1,061)	(1,134)	**(941)**
Profit for the year from continuing operations	3,993	3,832	3,084	3,050	**2,870**
Discontinued operations					
Profit for the year from discontinued operations	–	–	1,143	–	**–**
Profit for the year	3,993	3,832	4,227	3,050	**2,870**
Profit attributable to:					
Equity holders of the Company	2,295	2,051	2,038	897	**681**
Non-controlling interests	1,698	1,781	2,189	2,153	**2,189**

Assets and Liabilities

As at December 31

In HK$ million	2015#	2016#	2017#	2018	**2019**
Total non-current assets	54,619	62,579	66,298	72,754	**78,027**
Total current assets	20,139	18,995	26,226	21,473	**20,868**
Total current liabilities	(17,493)	(15,101)	(15,127)	(14,592)	**(16,287)**
Total non-current liabilities	(43,923)	(52,638)	(55,505)	(60,026)	**(64,636)**
Net assets	13,342	13,835	21,892	19,609	**17,972**

Distributable Reserves of the Company

As at December 31

In HK$ million	2015	2016	2017	2018	**2019**
Distributable reserves of the Company	18,460	18,855	18,905	19,104	**19,264**

The results for the year ended December 31, 2017 and the assets and liabilities as at December 31, 2016 and 2017 have been restated to reflect the impacts of the adoption of HKFRS 15, HKFRS 16 and HKFRS 9 (2014), and the operations discontinued during the year ended December 31, 2018 in the financial year 2018, whereas the results of the years ended December 31, 2015 and 2016 and the assets and liabilities as at December 31, 2015 have not been restated as the directors are of the opinion that it is costs over benefits to do so.

INVESTOR RELATIONS

DIRECTORS

The directors of the Company as at the date of the announcement of the 2019 Annual Results are:

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

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

Independent Non-Executive Directors:
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance
David Lawrence Herzog

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Bernadette M. Lomas

REGISTERED OFFICE

41st Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2888 2888
Fax: +852 2877 8877

ANNUAL REPORT 2019

This Annual Report 2019 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, and in accessible format on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:
A) received the Annual Report 2019 using electronic means through the website of the Company may request a printed copy, or
B) received the Annual Report 2019 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to the Company c/o the Company's Share Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: pccw@computershare.com.hk

Shareholders who have chosen (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Annual Report 2019) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2019 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2019 in printed form, free of charge.

Shareholders may change their choice of language and/or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrar.

* Subsequent to the date of this report, Mr Shao Guanglu resigned from the board of directors and Mr Mai Yanzhou was appointed as a Non-Executive Director of the Company, in each case, with effect from March 9, 2020.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain guaranteed notes issued by subsidiaries of the Company are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES

The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

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

ADR DEPOSITARY

Citibank, N.A.
PCCW American Depositary Receipts
Citibank Shareholder Services
P.O. Box 43077
Providence, Rhode Island 02940-3077, USA
Telephone: +1 877 248 4237 (toll free within USA)
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2019:	7,719,638,249 shares

DIVIDEND

Dividend per ordinary share for the year ended December 31, 2019:

Interim	9.18 HK cents
Final	23.00 HK cents#

\# *Subject to the approval of shareholders at the 2020 Annual General Meeting*

FINANCIAL CALENDAR

Announcement of 2019 Annual Results	February 13, 2020
2020 Annual General Meeting	May 8, 2020
Closure of register of members (for determination of shareholders who qualify for 2019 final dividend)	May 14-15, 2020 (both days inclusive)
Record date for 2019 final dividend	May 15, 2020
Payment of 2019 final dividend	On or around June 9, 2020

INVESTOR RELATIONS

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Quarry Bay, Hong Kong
Telephone: +852 2514 5084
Email: ir@pccw.com

WEBSITE

www.pccw.com

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues, earnings and prospects. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW relating to the business, industry and markets in which PCCW operates.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- our ability to execute our business strategy to expand our businesses locally and overseas, including entering into business combinations, strategic investments and acquisitions and challenges in growing business organically;
- our ability to develop our growth businesses in media and IT services after the spin-off of the telecommunications business into HKT;
- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong media market and the IT services market;
- increased content costs, changes in customer viewing habits or changes in technology;
- increased competition in the Hong Kong telecommunications market;
- our ability to obtain additional capital;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk; and
- possible negative market disruptions to the performance and prospects of our businesses resulting from macro-economic, public health and geopolitical uncertainties and other risks and factors beyond our control.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

PCCW Limited (Incorporated in Hong Kong with limited liability)

41/F, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the US (Ticker: PCCWY).

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