

HKT GROUP HOLDINGS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT**TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Opinion*What we have audited*

The consolidated financial statements of HKT Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 3 to 86, which comprise:

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, 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").

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.

Responsibilities of Directors 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 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.



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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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 our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 28, 2018

HKT GROUP HOLDINGS LIMITED**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017**

In HK\$ million	Note(s)	2016	2017
Revenue	5 & 6	33,847	33,258
Cost of sales		(14,445)	(14,161)
General and administrative expenses		(12,515)	(11,779)
Other losses, net	7	(43)	(143)
Finance costs, net	9	(1,150)	(1,139)
Share of results of associates		(13)	(12)
Share of results of joint ventures		(20)	(28)
Profit before income tax	8	5,661	5,996
Income tax	11(a)	(766)	(962)
Profit for the year		4,895	5,034
Attributable to:			
- Equity holder of the Company		4,857	5,022
- Non-controlling interests		38	12
Profit for the year		4,895	5,034

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017**

In HK\$ million	Note	2016	2017
Profit for the year		4,895	5,034
Other comprehensive income/(loss)			
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		(93)	175
Available-for-sale financial assets:			
- changes in fair value	19	(2)	-
- transfer to consolidated income statement on impairment		49	-
Cash flow hedges:			
- effective portion of changes in fair value		711	(280)
- transfer from equity to consolidated income statement		48	(332)
Other comprehensive income/(loss) for the year		713	(437)
Total comprehensive income for the year		5,608	4,597
Attributable to:			
- Equity holder of the Company		5,570	4,585
- Non-controlling interests		38	12
Total comprehensive income for the year		5,608	4,597

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

In HK\$ million	Note	Attributable to equity holder of the Company	2016 Non- controlling interests	Total equity
At January 1, 2016		30,275	119	30,394
Comprehensive income/(loss)				
Profit for the year		4,857	38	4,895
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		(93)	-	(93)
Available-for-sale financial assets:				
- changes in fair value		(2)	-	(2)
- transfer to consolidated income statement on impairment		49	-	49
Cash flow hedges:				
- effective portion of changes in fair value		711	-	711
- transfer from equity to consolidated income statement		48	-	48
Total other comprehensive income		713	-	713
Total comprehensive income for the year		5,570	38	5,608
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Issue of ordinary shares		194	-	194
Final dividend paid in respect of previous year	12	(2,141)	-	(2,141)
Interim dividend declared and paid in respect of the current year	12	(2,051)	-	(2,051)
Receipt of PCCW shares under the PCCW Subscription Scheme		36	-	36
Settlement of balance with a non-controlling shareholder of a subsidiary		-	(53)	(53)
Dividend declared and paid to non-controlling shareholders of subsidiaries		-	(41)	(41)
Total transactions with equity holders		(3,962)	(94)	(4,056)
At December 31, 2016		31,883	63	31,946

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017

In HK\$ million	Note	Attributable to equity holder of the Company	2017 Non- controlling interests	Total equity
At January 1, 2017		31,883	63	31,946
Comprehensive income/(loss)				
Profit for the year		5,022	12	5,034
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		175	-	175
Cash flow hedges:				
- effective portion of changes in fair value		(280)	-	(280)
- transfer from equity to consolidated income statement		(332)	-	(332)
Total other comprehensive loss		(437)	-	(437)
Total comprehensive income for the year		4,585	12	4,597
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Issue of ordinary shares		13	-	13
Final dividend paid in respect of previous year	12	(2,632)	-	(2,632)
Interim dividend declared and paid in respect of the current year	12	(2,129)	-	(2,129)
Dividend declared and paid to non-controlling shareholders of subsidiaries		-	(35)	(35)
Total transactions with equity holders		(4,748)	(35)	(4,783)
At December 31, 2017		31,720	40	31,760

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017**

In HK\$ million	Note(s)	2016	2017
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	18,019	19,386
Interests in leasehold land	14	253	240
Goodwill	15	49,787	49,814
Intangible assets	16	10,695	10,895
Interests in associates	17	130	-
Interests in joint ventures	18	587	572
Available-for-sale financial assets	19	77	77
Derivative financial instruments	24	277	223
Financial assets at fair value through profit or loss	20	42	20
Deferred income tax assets	28	317	466
Other non-current assets		610	692
		80,794	82,385
Current assets			
Prepayments, deposits and other current assets		5,217	5,480
Inventories	22(a)	707	749
Trade receivables, net	22(b)	3,035	2,787
Amounts due from related companies	4(c)	98	77
Financial assets at fair value through profit or loss	20	55	28
Restricted cash	22(c)	36	51
Short-term deposits		450	450
Cash and cash equivalents	30(c)	2,882	3,217
		12,480	12,839
Current liabilities			
Trade payables		2,474	1,874
Accruals and other payables		5,029	5,171
Carrier licence fee liabilities	29	173	173
Amounts due to fellow subsidiaries and the immediate holding company	4(c) & 4(d)	7,748	8,275
Advances from customers		2,126	2,326
Current income tax liabilities		870	998
		18,420	18,817

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT DECEMBER 31, 2017

In HK\$ million	Note(s)	2016	2017
Non-current liabilities			
Long-term borrowings	23	38,193	39,146
Derivative financial instruments	24	14	150
Deferred income tax liabilities	28	2,713	2,989
Deferred income		1,021	1,307
Carrier licence fee liabilities	29	544	455
Other long-term liabilities		423	600
		42,908	44,647
Net assets		31,946	31,760
CAPITAL AND RESERVES			
Share capital	26	4,961	4,961
Reserves	27	26,922	26,759
Equity attributable to equity holder of the Company		31,883	31,720
Non-controlling interests		63	40
Total equity		31,946	31,760

Approved and authorized for issue by the board of directors (the "Board") on March 28, 2018 and signed on behalf of the Board by



Alexander Anthony Arena
Director



Hui Hon Hing, Susanna
Director

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

In HK\$ million	Note	2016	2017
NET CASH GENERATED FROM OPERATING ACTIVITIES	30(a)	12,035	12,156
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		8	4
Proceeds from disposal of available-for-sale financial asset		-	6
Purchases of property, plant and equipment		(2,835)	(2,602)
Purchases of intangible assets		(4,254)	(4,755)
Investments in joint ventures		(160)	-
Investment in an associate		(69)	-
Investment in an available-for-sale financial asset		(77)	-
Loans to an associate		(35)	(19)
Repayment of loan from an associate		17	-
Loan to joint ventures		(40)	(115)
Increase in short-term deposits with maturity more than three months		(450)	-
NET CASH USED IN INVESTING ACTIVITIES		(7,895)	(7,481)
FINANCING ACTIVITIES			
New borrowings raised, net		16,828	5,275
Finance costs paid		(797)	(856)
Repayments of borrowings		(17,036)	(4,650)
Movement in amounts due to fellow subsidiaries		82	665
Settlement of balance to non-controlling shareholders of a subsidiary		(53)	-
Dividends paid to the sole shareholder of the Company		(4,192)	(4,761)
Dividend paid to non-controlling shareholders of subsidiaries		(41)	(35)
Proceeds from issue of ordinary shares		194	13
NET CASH USED IN FINANCING ACTIVITIES		(5,015)	(4,349)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(875)	326
Exchange differences		14	9
CASH AND CASH EQUIVALENTS			
Beginning of year		3,743	2,882
End of year	30(c)	2,882	3,217

The notes on pages 10 to 86 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

HKT Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on January 18, 2008. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is a direct wholly-owned subsidiary of HKT Limited (“HKT”) which is a company incorporated in the Cayman Islands and the share stapled units of the HKT Trust jointly issued with HKT (the “Share Stapled Units”) are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The directors consider PCCW Limited (“PCCW”), a company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) with its shares listed on the Stock Exchange, to be the Company’s ultimate holding company.

The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications business 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.

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

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

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

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 30(b).

The Group has not adopted any new and amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 36.

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

- financial assets at fair value through profit or loss (see note 2(k)(i));
- available-for-sale financial assets (see note 2(k)(ii)); and
- derivative financial instruments (see note 2(m)).

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

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

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on the 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 HKAS 39 in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the 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 other measurement basis is required by Hong Kong Financial Reporting Standards. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Subsidiaries and non-controlling interests (continued)

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

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

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

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

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

d. Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method and are initially recorded at cost. The Group's interests in associates include goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change 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.

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 are reclassified to consolidated income statement where appropriate.

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

e. Joint arrangements

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

e. Joint arrangements (*continued*)

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

When the Group's share of losses exceeds its interest in the joint venture, 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 joint venture. For this purpose, the Group's interest in the joint venture 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 investment in the joint venture.

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

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

f. Gaining or losing control

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in investor profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the 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.

g. Property, plant and equipment

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

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 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.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

g. Property, plant and equipment (*continued*)

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

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

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

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 use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

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, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(u)(iii).

iii. Operating lease charges

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

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

i. Goodwill

Goodwill represents the excess of the cost of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the 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 annually for impairment (see note 2(l)(ii)). In respect of the associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

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

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

ii. Carrier licences

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

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

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

iii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences and market knowledge are capitalized as “intangible assets” if it is 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 source.

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

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

iv. Other intangible assets

Other intangible assets that are acquired by the Group is 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(l)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

iv. Other intangible assets (*continued*)

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

Trademarks	20 years
Customer base	1 to 10 years

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

k. Investments in equity securities

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

Investments in equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses (see note 2(l)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

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

At the end of each reporting period, the fair value is remeasured based on their current bid prices in an active market, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 2(u)(v) and 2(u)(vii) respectively.

ii. Available-for-sale financial assets

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

k. Investments in equity securities (*continued*)

ii. Available-for-sale financial assets (*continued*)

At the end of each reporting period, the fair value of available-for-sale financial assets is remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 2(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 2(u)(vii). When the investments are derecognized or impaired (see note 2(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

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

l. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in subsidiaries and interests in associates and joint ventures: see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Impairment of assets (*continued*)

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

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

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

- ii. Impairment of other assets

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

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

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

i. Impairment of assets (*continued*)

ii. Impairment of other assets (*continued*)

- 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.

m. Derivative financial instruments

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

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

n. Hedging

i. Fair value hedge

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

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

ii. Cash flow hedge

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

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

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

n. Hedging (*continued*)

ii. Cash flow hedge (*continued*)

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

o. Inventories

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

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

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

Consumable inventories, held for use in the maintenance and expansion of the 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.

p. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)(i)).

q. Cash and cash equivalents

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

r. Trade and other payables

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

s. Borrowings

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

t. Provisions and contingent liabilities

Provisions are recognized when (i) the 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.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

t. Provisions and contingent liabilities (*continued*)

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.

u. Revenue recognition

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

i. Telecommunications and other services

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

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

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

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

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

ii. Sales of goods

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

iii. Rental income from operating leases

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

iv. Contract revenue

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

u. Revenue recognition (*continued*)

iv. Contract revenue (*continued*)

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

v. Interest income

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

vi. Commission income

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

vii. Dividend income

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

v. Borrowing costs

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

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

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

w. Income tax

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

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

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 period, or periods, in which the tax loss or credit can be utilized.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

w. **Income tax (*continued*)**

iii. (*continued*)

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

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

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

x. **Employee benefits**

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

x. **Employee benefits (*continued*)**

iii. Share-based payments

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

The boards of directors of HKT Management Limited (the trustee-manager of the HKT Trust, the “Trustee-Manager”) and HKT may also grant Share Stapled Units to employees at nil consideration under the HKT’s Share Stapled Units award schemes, under which the awarded shares are either newly issued at issue price (the “HKT Share Stapled Units Subscription Scheme”) or are purchased from the open market (the “HKT Share Stapled Units Purchase Scheme”). Awards under the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded Share Stapled Units represents the quoted market price of Share Stapled Units purchased from the open market under the HKT Share Stapled Units Purchase Scheme and the issue price of Share Stapled Units under the HKT Share Stapled Units Subscription Scheme are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of Share Stapled Units are recognized as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded 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 income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded Share Stapled Units recognized in the financial assets at fair value through profit and loss is offset with the obligation.

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

x. **Employee benefits (*continued*)**

iii. Share-based payments (*continued*)

obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW shares that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares recognized in the financial assets at fair value through profit and loss is offset with the obligation.

iv. Termination benefits

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

y. **Translation of foreign currencies**

Items included in the financial statements of each of the 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 Group's functional and presentation currency.

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

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

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

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

z. **Related parties**

For the purposes of the 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;

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

z. Related parties (*continued*)

- 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 (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.

aa. Segment reporting

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

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

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

bb. Dividend distribution

Dividend distribution to the Company's sole shareholder is recognized as a liability in the consolidated financial statements and the Company's financial statements in the period in which the dividends are approved by the Board or Company's sole shareholder, 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 15 and 32 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Group's accounting policies. Other key sources of estimation uncertainty are discussed below:

- i. Impairment of assets (other than investments in equity securities and other receivables)
At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following classes of assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:
 - property, plant and equipment;
 - interests in leasehold land;

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (*CONTINUED*)

- i. Impairment of assets (other than investments in equity securities and other receivables) (*continued*)
 - 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 value, 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 reasonable estimates of the recoverable value, the Group may perform such assessment utilizing internal resources or the Group may engage external advisors to counsel the Group in making this assessment. 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 value of any asset.

- ii. Revenue recognition

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

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

- iii. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and appropriate tax planning strategies. In the event that the Group's estimate 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.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RELATED PARTY TRANSACTIONS

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

In HK\$ million	Note	2016	2017
Telecommunications service fees received or receivable from a substantial shareholder of PCCW	a	80	74
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	a	99	88
Telecommunications service fees and interest income received or receivable from joint ventures	a	34	39
Telecommunications service fees, equipment purchase, outsourcing fees and rental charges paid or payable to joint ventures	a	277	269
Consultancy service charges and interest income received or receivable from an associate	a	15	16
Telecommunications service fees paid or payable to an associate	a	-	12
Telecommunications service fees, management fee, equipment sales and other recharge costs received or receivable from fellow subsidiaries	a	989	1,582
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	a	2,294	2,569
Rental and facilities management charges paid or payable to fellow subsidiaries	a	142	143
Interest paid or payable to the immediate holding company	a	43	63
Key management compensation	b	66	65

- 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	2016	2017
Salaries and other short-term employee benefits	64	63
Post-employment benefits	2	2
	66	65

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RELATED PARTY TRANSACTIONS (CONTINUED)

c. Balances with related companies and fellow subsidiaries

Other than as specified in notes 17 and 18, the net amounts due to fellow subsidiaries and the net amount due from/to related companies as at December 31, 2016 and 2017 are unsecured, non-interest bearing and have no fixed repayment terms.

d. Amount due to immediate holding company

The balance is unsecured, non-interest bearing and has no fixed repayment terms, except for the loan payable to the immediate holding company of HK\$ 7,236 million as at December 31, 2017 (2016: HK\$7,244 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2016: same) and repayable within one year.

5 REVENUE

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

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:

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	TSS	Mobile	2016 Other Businesses	Eliminations	Total
Revenue					
External revenue	20,547	13,063	237	-	33,847
Inter-segment revenue	867	-	-	(867)	-
Total revenue	21,414	13,063	237	(867)	33,847
Results					
EBITDA	7,671	5,513	(492)	-	12,692
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,358	1,347	173	-	2,878
In HK\$ million	TSS	Mobile	2017 Other Businesses	Eliminations	Total
Revenue					
External revenue	20,991	12,018	249	-	33,258
Inter-segment revenue	850	-	-	(850)	-
Total revenue	21,841	12,018	249	(850)	33,258
Results					
EBITDA	7,816	5,757	(569)	-	13,004
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,641	880	134	-	2,655

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	2016	2017
Total segment EBITDA	12,692	13,004
Gain/(loss) on disposals of property, plant and equipment and intangible assets, net	3	(1)
Depreciation and amortization	(5,808)	(5,685)
Other losses, net	(43)	(143)
Finance costs, net	(1,150)	(1,139)
Share of results of joint ventures	(20)	(28)
Share of results of associates	(13)	(12)
Profit before income tax	5,661	5,996

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 the customers.

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

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$79,032 million as at December 31, 2017 (2016: HK\$77,339 million). The total of these non-current assets located in other countries are HK\$2,448 million as at December 31, 2017 (2016: HK\$2,604 million).

7 OTHER LOSSES, NET

In HK\$ million	2016	2017
Gain on disposal on an available-for-sale financial asset	-	6
Net gain on fair value hedging instruments	4	-
Provision for impairment loss on interests in associates	-	(154)
Provision for impairment on an available-for-sale financial asset	(54)	-
Others	7	5
	(43)	(143)

HKT GROUP HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****8 PROFIT BEFORE INCOME TAX**

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

a. Staff costs

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

b. Other items

In HK\$ million	2016	2017
Crediting:		
Gross rental income	52	62
Exchange gain/(loss), net	34	(311)
Less: Cash flow hedges-transferred from equity	(48)	332
Charging:		
Impairment loss for doubtful debts	303	259
Provision for inventory obsolescence	6	12
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	(3)	1
Depreciation of property, plant and equipment	1,432	1,381
Amortization of land lease premium	12	13
Amortization of intangible assets	4,364	4,291
Cost of inventories sold	5,032	4,044
Cost of sales, excluding inventories sold	9,413	10,117
Auditor's remuneration	14	12
Operating lease rental	1,216	1,360

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCE COSTS, NET

In HK\$ million	2016	2017
Interest expenses	(1,083)	(1,157)
Notional accretion on carrier licence fee liabilities	(83)	(52)
Other borrowing costs	(48)	(65)
Cash flow hedges: changes in fair value	(1)	54
Impact of re-designation of fair value hedges	(16)	(16)
	(1,231)	(1,236)
Interest capitalized in property, plant and equipment (<i>note (a)</i>)	43	53
Total finance costs	(1,188)	(1,183)
Interest income	38	44
Finance costs, net	(1,150)	(1,139)

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

10 DIRECTORS' EMOLUMENTS

The salaries and other short-term employee benefits and post-employment benefits of approximately HK\$66,308,000 and HK\$1,999,000 (2016: HK\$61,892,000 and HK\$1,982,000) respectively cover the compensation for two directors of the Company for the year (2016: two).

11 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK\$ million	2016	2017
Hong Kong profits tax		
- provision for current year	641	829
- over provision for prior year	-	(34)
Overseas tax		
- provision for current year	46	33
- under provision for prior year	6	5
Movement of deferred income tax (<i>note 28(a)</i>)	73	129
	766	962

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

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX (*CONTINUED*)

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

In HK\$ million	2016	2017
Profit before income tax	5,661	5,996
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2016: 16.5%)	934	989
Effect of different tax rates of subsidiaries operating overseas	4	13
Income not subject to tax	(31)	(26)
Expenses not deductible for tax purposes	36	99
Tax losses not recognized	65	78
Under/(over) provision in respect of prior years	6	(29)
Utilization of previously unrecognized tax losses	(32)	(24)
Recognition of tax losses	(221)	(290)
Recognition of previously unrecognized temporary differences	-	65
Effect on change of corporate tax rate	-	80
Net losses of associates and joint ventures not deductible for tax purpose	5	7
Income tax expense	766	962

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

12 DIVIDENDS

In HK\$ million	2016	2017
Interim dividend declared and paid in respect of the current year of 3.35 HK cents (2016: 3.23 HK cents) per ordinary share of the Company	2,051	2,129
Final dividend declared and paid during the year in respect of previous financial year, approved and paid during the year of 4.14 HK cents (2016: 3.37 HK cents) per ordinary share of the Company	2,141	2,632
Final dividend declared after the end of the reporting period of 4.38 HK cents (2016: 4.14 HK cents) per ordinary share of the Company	2,632	2,783

The final dividend declared after the end of the reporting period have not been recognized as liabilities as at the end of the reporting period.

HKT GROUP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
13 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million	2016					Total
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,466	20,724	23,758	11,032	1,508	58,488
Additions	-	433	410	494	1,541	2,878
Transfers	(77)	406	556	359	(1,321)	(77)
Disposals	-	(243)	(320)	(67)	(2)	(632)
Exchange differences	-	(19)	(33)	(32)	-	(84)
End of year	1,389	21,301	24,371	11,786	1,726	60,573
Accumulated depreciation and impairment						
Beginning of year	631	17,168	15,302	8,713	-	41,814
Charge for the year	31	401	567	433	-	1,432
Transfers	(7)	-	-	-	-	(7)
Disposals	-	(243)	(320)	(64)	-	(627)
Exchange differences	-	(8)	(18)	(32)	-	(58)
End of year	655	17,318	15,531	9,050	-	42,554
Net book value						
End of year	734	3,983	8,840	2,736	1,726	18,019
Beginning of year	835	3,556	8,456	2,319	1,508	16,674

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million	2017					Total
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,389	21,301	24,371	11,786	1,726	60,573
Additions	-	490	249	401	1,515	2,655
Transfers	-	579	481	265	(1,325)	-
Disposals	-	(242)	(127)	(69)	-	(438)
Exchange differences	-	22	191	31	-	244
End of year	1,389	22,150	25,165	12,414	1,916	63,034
Accumulated depreciation and impairment						
Beginning of year	655	17,318	15,531	9,050	-	42,554
Charge for the year	29	405	475	472	-	1,381
Disposals	-	(225)	(127)	(66)	-	(418)
Exchange differences	-	21	95	15	-	131
End of year	684	17,519	15,974	9,471	-	43,648
Net book value						
End of year	705	4,631	9,191	2,943	1,916	19,386
Beginning of year	734	3,983	8,840	2,736	1,726	18,019

The depreciation charge for the year is included in “General and administrative expenses” in the consolidated income statement.

During the year ended December 31, 2017, the 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 trend. The reassessment has resulted in changes in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group’s profit attributable to the shareholder of the Company for the year ended December 31, 2017 increased by HK\$115 million (2016: HK\$401 million) and the equity attributable to the shareholder of the Company as at December 31, 2017 increased by HK\$115 million (2016: HK\$401 million).

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INTERESTS IN LEASEHOLD LAND

In HK\$ million	2016	2017
Cost		
Beginning of year and end of year	536	536
Accumulated amortization		
Beginning of year	271	283
Charge for the year	12	13
End of year	283	296
Net book value		
End of year	253	240
Beginning of year	265	253

15 GOODWILL

In HK\$ million	2016	2017
Cost		
Beginning of year	49,817	49,787
Exchange differences	(30)	27
End of year	49,787	49,814

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segment as follows:

In HK\$ million	2016	2017
TSS		
- Local telephony and data services	31,187	31,187
- Global	1,247	1,269
- Others	500	505
Mobile	16,853	16,853
Total	49,787	49,814

Due to restructuring of certain business units during 2017, goodwill attributable to certain CGUs has been reviewed and re-allocated accordingly. The comparative information is presented in line with current year's basis.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 GOODWILL (CONTINUED)

The key assumptions used for value-in-use calculations in 2016 and 2017 are as follows:

	2016				2017			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Discount rate	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Discount rate
TSS								
- Local telephony and data services	1%	1%	1%	8%	1%	1%	1%	7%
- Global	1%	4%	3%	10%	1%	6%	3%	9%
Mobile	2%	5%	2%	9%	1%	3%	2%	11%

These assumptions have been used for the analysis of each CGU.

There was no impairment required from the review on goodwill as at October 31, 2017.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

16 INTANGIBLE ASSETS

In HK\$ million	2016						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	1,868	4,157	4,968	2,773	1,197	14	14,977
Additions	-	2,061	2,900	-	623	175	5,759
Write-off	-	(1,143)	(2,540)	-	-	(175)	(3,858)
Exchange differences	(10)	-	-	(10)	-	-	(20)
End of year	1,858	5,075	5,328	2,763	1,820	14	16,858
Accumulated amortization							
Beginning of year	291	1,827	2,491	775	265	14	5,663
Charge for the year	93	520	2,834	459	283	175	4,364
Write-off	-	(1,143)	(2,540)	-	-	(175)	(3,858)
Exchange differences	(2)	-	-	(4)	-	-	(6)
End of year	382	1,204	2,785	1,230	548	14	6,163
Net book value							
End of year	1,476	3,871	2,543	1,533	1,272	-	10,695
Beginning of year	1,577	2,330	2,477	1,998	932	-	9,314

HKT GROUP HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
16 INTANGIBLE ASSETS (CONTINUED)

In HK\$ million	Trademarks	Carrier licences	2017		Software	Others	Total
			Customer acquisition costs	Customer base			
Cost							
Beginning of year	1,858	5,075	5,328	2,763	1,820	14	16,858
Additions	-	103	3,333	-	869	178	4,483
Write-off	-	-	(2,811)	-	-	(178)	(2,989)
Disposals	-	-	-	(1)	-	-	(1)
Exchange differences	4	-	4	5	-	-	13
End of year	1,862	5,178	5,854	2,767	2,689	14	18,364
Accumulated amortization							
Beginning of year	382	1,204	2,785	1,230	548	14	6,163
Charge for the year	93	413	2,950	460	197	178	4,291
Write-off	-	-	(2,811)	-	-	(178)	(2,989)
Exchange differences	1	-	1	2	-	-	4
End of year	476	1,617	2,925	1,692	745	14	7,469
Net book value							
End of year	1,386	3,561	2,929	1,075	1,944	-	10,895
Beginning of year	1,476	3,871	2,543	1,533	1,272	-	10,695

The amortization charge for the year is included in "General and administrative expenses" in the consolidated income statement.

17 INTERESTS IN ASSOCIATES

In HK\$ million	2016	2017
Share of net assets of associates	63	66
Loans due from an associate, net	214	235
Provision for impairment	(147)	(301)
	130	-
Investments at cost, unlisted	106	115

During the year ended December 31, 2017, provision for impairment of HK\$154 million (2016: nil) was included in the other losses, net in the consolidated income statement. This was resulted from the revised expectation that the carrying value of the associates is no longer recoverable.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN ASSOCIATES (CONTINUED)

a. As at December 31, 2017, the Group considered that there was no principal associate.

As at December 31, 2016 and 2017, particulars of the associates of the Group are as follows:

Company name	Principal place of business/Place of incorporation	Principal activities	Value of issued capital/ registered capital	Interest held by the Company		Measurement method
				Directly	Indirectly	
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*) ("DJTCL")	The People's Republic of China ("PRC")	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	-	35%	Equity
Latto Ltd. ("Latto")	Cyprus	Development and provision of cloud based multi-screen video platforms for streaming and on demand video content - OTT	EUR2,505.15 ordinary shares and EUR10,417.32 aggregate preferred shares	-	33.5%	Equity

Unofficial company name

The above associates are private companies and there are no quoted market prices available for their shares.

b. Commitments and contingent liabilities in respect of the associates

As at December 31, 2017, the Group's share of its associates' commitments were as follows:

In HK\$ million	2016	2017
Operating lease commitments		
- within 1 year	4	5
- after 1 year but within 5 years	4	6

The Group's contingent liabilities relating to its associates are disclosed in note 34. As at December 31, 2017, the Group had no share of contingent liabilities related to its associates (2016: nil).

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN ASSOCIATES (CONTINUED)

c. Summarized unaudited financial information of the Group's associates

Set out below is the summarized unaudited financial information of the associates of the Group and being accounted for using the equity method:

In HK\$ million	DJTCL		Latto	
	2016	2017	2016	2017
Non-current assets	3	3	52	56
Current assets	72	72	16	8
Non-current liabilities	-	-	-	-
Current liabilities	(426)	(467)	(16)	(21)
In HK\$ million	2016	2017	2016	2017
Revenue	227	321	4	17
Loss after income tax and total comprehensive loss	(29)	(22)	(10)	(11)
Dividend received from associates	-	-	-	-

The information above reflects the amounts presented in the financial statement of the associates (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

d. Reconciliation of summarized financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in associates.

In HK\$ million	DJTCL		Latto	
	2016	2017	2016	2017
Net assets/(liabilities)				
Beginning of year	(344)	(351)	-	52
Net asset value at date of acquisition	-	-	64	-
Loss for the year/since acquisition	(29)	(22)	(10)	(11)
Exchange differences	22	(19)	(2)	2
End of year	(351)	(392)	52	43
Interests in associates	35%	35%	33.5%	33.5%
Interests in associates	(123)	(137)	17	14
Goodwill	24	24	46	52
Loans due from associates (note (i))	313	340	-	8
Provision for impairment	(147)	(227)	-	(74)
Carrying value	67	-	63	-

- (i) As at December 31, 2017, loans due from DJTCL comprised unsecured loans totaling HK\$160 million (2016: HK\$118 million) which bear interest at 4% per annum and repayable in 1 year (2016: same), and certain secured loans totaling HK\$180 million (2016: HK\$195 million) which bear interest at 4% per annum and repayable in 1 year (2016: same). The loan due from Latto amounted to HK\$8 million (2016: nil), which bears interest at 8% per annum, is secured and repayable in 2 years. The amounts are considered as equity in nature for which full provision for impairment has been made at December 31, 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTERESTS IN ASSOCIATES (CONTINUED)

d. Reconciliation of summarized financial information (continued)

During the year ended December 31, 2017, the Group did not have any unrecognized share of losses of associates (2016: nil). As at December 31, 2017, there was no accumulated share of losses of the associates unrecognized by the Group (2016: nil).

18 INTERESTS IN JOINT VENTURES

In HK\$ million	2016	2017
Share of net assets of joint ventures	171	146
Loans due from joint ventures, net	416	426
	587	572
Investments at cost, unlisted	207	207

As at December 31, 2017, the loan due from a joint venture of HK\$426 million (2016: HK\$446 million) bears interests at HIBOR plus 3% per annum (2016: same). All the loans are unsecured and have no fixed terms of repayment. The amounts are considered as part of the interests in joint ventures.

a. As at December 31, 2017, particulars of the principal joint venture of the Group are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Value of issued capital	Interest held by the Company		Measurement method
				Directly	Indirectly	
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK\$10,000	-	50%	Equity

GBL is a strategic partnership of the Group, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The above principal joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2017, the Group's share of its joint ventures' commitments were as follows:

In HK\$ million	2016	2017
Commitment to provide funding	54	86
Capital commitments		
- Authorized & contracted for acquisition of property, plant and equipment	-	40
Operating lease commitments		
- within 1 year	2	6
- after 1 year but within 5 years	3	9

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN JOINT VENTURES (CONTINUED)

b. Commitments and contingent liabilities in respect of joint ventures (Continued)

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2017, the Group had no share of contingent liabilities related to the joint ventures (2016: nil).

c. Summarized unaudited financial information of the Group's principal joint venture

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	2016	2017
Non-current assets	986	961
Current assets		
Cash and cash equivalents	30	12
Other current assets (excluding cash and cash equivalents)	25	30
Total current assets	55	42
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(275)	(285)
Other current liabilities (including trade payables, accruals and other payables)	(61)	(88)
Total current liabilities	(336)	(373)
Non-current liabilities		
Financial liabilities	(730)	(663)
Other non-current liabilities	(24)	(30)
Total non-current liabilities	(754)	(693)
Net liabilities	(49)	(63)
Equity attributable to equity holders	(49)	(63)
Revenue	219	245
Depreciation and amortization	(84)	(97)
Interest expense	(32)	(34)
Profit before income tax	1	1
Income tax	(10)	(15)
Loss after income tax and total comprehensive loss	(9)	(14)
Dividend received from the joint venture	-	-

For the year ended December 31, 2017, both the aggregate total net amount of profit/(loss) after income tax and total comprehensive income/(loss) of the individually immaterial joint ventures that are accounted for using the equity method was loss of HK\$32 million (2016: HK\$22 million).

The information above reflects the amounts presented in the financial statements of the joint ventures (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN JOINT VENTURES (CONTINUED)

d. Reconciliation of summarized unaudited financial information of a principal joint venture

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in GBL, the principal joint venture.

In HK\$ million	2016	2017
Net liabilities		
Beginning of year	(40)	(49)
Loss and total comprehensive loss for the year	(9)	(14)
End of year	(49)	(63)
Interest in a joint venture	50%	50%
Interest in a joint venture	(24)	(32)
Loan due from a joint venture	446	426
Carrying value	422	394

As at December 31, 2017, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK\$178 million (2016: HK\$164 million).

During the year ended December 31, 2017, the Group did not have any unrecognized share of losses of joint ventures (2016: nil). As at December 31, 2017, there was no accumulated share of losses of the joint ventures unrecognized by the Group (2016: nil).

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	2016	2017
Beginning of year	7	77
Addition	77	-
Net loss transferred to equity (note 27)	(2)	-
Impairment loss recognized	(5)	-
End of year	77	77

During the year ended December 31, 2017, no provision for impairment was included in other losses, net in the consolidated income statement. In 2016, HK\$54 million provision for impairment was included in other losses, net, of which HK\$49 million was transferred from equity to consolidated income statement on impairment as a result of the estimated recoverable amount being lower than its carrying amount. The Group does not hold any collateral over these securities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK\$ million	2016	2017
Listed securities	97	48
Less: Securities held for employee share award to be vested within one year classified as current assets	(55)	(28)
Non-current portion	42	20

Financial assets at fair value through profit or loss represent shares of PCCW and Share Stapled Units acquired under the PCCW Share Award Schemes and the HKT Share Stapled Units Purchase Scheme, respectively. Please refer to notes 25(b)(iv) and 25(b)(iii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT, respectively.

21 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
HKT Services Limited	Hong Kong	HK\$1	-	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	HK\$9,945,156,001	-	100%	Provision of telecommunications services
電訊盈科科技(北京)有限公司 ³ The PRC (PCCW Technology (Beijing) Limited ⁴)		RMB40,000,000	-	100%	System integration, software development and technical services consultancy
CSL Mobile Limited	Hong Kong	HK\$7,900,280,100 ordinary shares and HK\$1,254,000,000 non-voting deferred shares	-	100%	Provision of mobile services to its customers and the sale of mobile handsets and accessories
Sun Mobile Limited	Hong Kong	HK\$41,600,000	-	60% ¹	Provision of mobile telecommunications services to customers in Hong Kong
Gateway Global Communications Limited	United Kingdom	GBP1	-	100%	Provision of network-based telecommunications services to external customers and related companies
PCCW Global B.V.	Netherlands/ France	EUR18,000	-	100%	Sales, distribution and marketing of telecommunication services and products

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INTERESTS IN SUBSIDIARIES (CONTINUED)

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: (continued)

Company name	Country/place of incorporation/establishment and operation	Value of issued and fully paid share capital/paid-in capital/registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
PCCW Global, Inc.	Delaware, U.S.	US\$18.01	-	100%	Supply of broadband Internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Media City	HK\$240,016,690.65	-	100%	Provision of network-based telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK\$10	-	100%	Provision of satellite-based and network-based telecommunications services
Gateway Communications (Proprietary) Limited	South Africa	ZAR1,000	-	100%	Sales and distribution of integrated global communications solutions to customers in South Africa
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S\$60,956,485.64	-	100%	Provision of telecommunications solutions related services
PCCW Global (Japan) K.K.	Japan	JPY10,000,000	-	100%	Provision of telecommunications services
PCCW (Macau), Limitada	Macau	MOP2,000,000	-	75% ²	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
廣州電盈綜合客戶服務技術發展有限公司 ³ (PCCW Customer Management Technology and Services (Guangzhou) Limited ⁴)	The PRC	HK\$93,240,000	-	100%	Customer service and consultancy
HKT Teleservices International Limited	Hong Kong	HK\$350,000,002	-	100%	Provision of customer relationship management and customer contact management solutions and services

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INTERESTS IN SUBSIDIARIES (CONTINUED)

- a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: (continued)

Notes:

1. The equity interest held by non-controlling interest is 40% as at December 31, 2017.
2. The equity interest held by non-controlling interest is 25% as at December 31, 2017.
3. Represents a wholly foreign owned enterprise.
4. Unofficial company name.

b. Non-controlling interests of the Group's subsidiaries

The total non-controlling interests as at December 31, 2017 were HK\$40 million (2016: HK\$63 million), of which HK\$33 million (2016: HK\$51 million) was attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

22 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK\$ million	2016	2017
Work-in-progress	271	331
Finished goods	360	359
Consumable inventories	76	59
	707	749

b. Trade receivables, net

In HK\$ million	2016	2017
Trade receivables	3,225	2,970
Less: Impairment loss for doubtful debts (note (i))	(190)	(183)
Trade receivables, net	3,035	2,787

i. Impairment loss for doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK\$ million	2016	2017
Beginning of year	168	190
Impairment loss recognized	303	259
Uncollectible amounts written off	(281)	(266)
End of year	190	183

As at December 31, 2017, trade receivables of HK\$183 million (2016: HK\$190 million) were impaired. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 CURRENT ASSETS AND LIABILITIES (CONTINUED)

b. Trade receivables, net (continued)

ii. Trade receivables that are not impaired

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK\$ million	2016	2017
Neither past due nor impaired	1,611	1,781
1 - 30 days past due	603	394
31 - 60 days past due	145	109
61 - 90 days past due	179	105
Over 90 days past due	497	398
Past due but not considered impaired	1,424	1,006
	3,035	2,787

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not considered impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in trade receivables, net of the Group was the amount due from related parties of HK\$36 million (2016: HK\$12 million).

c. Restricted cash

As at December 31, 2017, cash balance appropriately HK\$51 million (2016: HK\$36 million) has been received from and restricted for the use of certain customers.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 LONG-TERM BORROWINGS

In HK\$ million	2016	2017
Repayable within a period		
- over one year, but not exceeding two years	1,194	9,350
- over two years, but not exceeding five years	19,735	12,164
- over five years	17,264	17,632
	38,193	39,146
Representing:		
US\$500 million 3.75% guaranteed notes due 2023 (<i>note (a)</i>)	3,736	3,787
US\$300 million zero coupon guaranteed notes due 2030 (<i>note (b)</i>)	2,311	2,329
US\$500 million 3.625% guaranteed notes due 2025 (<i>note (c)</i>)	3,829	3,863
EUR200 million 1.65% guaranteed notes due 2027 (<i>note (d)</i>)	1,613	1,830
US\$750 million 3.00% guaranteed notes due 2026 (<i>note (e)</i>)	5,775	5,823
Bank borrowings	20,929	21,514
	38,193	39,146
Secured	-	-
Unsecured	38,193	39,146

a. US\$500 million 3.75% guaranteed notes due 2023

On March 8 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

b. US\$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

c. US\$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

d. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

e. US\$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

f. Please refer to note 35 for details of the Group's bank loan facilities.

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24 DERIVATIVE FINANCIAL INSTRUMENTS

In HK\$ million	2016	2017
Non-current assets		
Fixed-to-fixed cross currency swap and foreign exchange forward contracts - cash flow hedges (<i>note (a)&(b)</i>)	215	183
Floating-to-fixed interest rate swap contract – cash flow hedges (<i>note (c)</i>)	62	40
	277	223
Non-current liabilities		
Fixed-to-fixed cross currency swap and foreign exchange forward contracts - cash flow hedges (<i>note (a)&(b)</i>)	14	150

- a. Fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2017 with notional contract amounts of US\$1,250 million (approximately HK\$9,694 million) (2016: US\$1,250 million (approximately HK\$9,694 million)) were designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Group have fixed the USD/HKD exchange rate at 7.7544-7.7580 (2016: 7.7544-7.7580) for the notional amounts (see note 32(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts represents the effective portion on the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the borrowings.

As at December 31, 2017, the Group had outstanding foreign exchange forward contract with notional contract amount of US\$376 million (approximately HK\$2,905 million) (2016: US\$376 million (approximately HK\$2,905 million)). The contract was designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. The Group has fixed the USD/HKD exchange rate at 7.733 (2016: 7.733) for the notional amounts (see note 32(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK\$15 million for the year ended December 31, 2017 (2016: gain of approximately HK\$15 million).

As at December 31, 2017, the Group had an outstanding fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)). The contract was designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of this swap contract matches with the maturity of the underlying borrowings and the Group has fixed the EUR/HKD exchange rate at 8.3245 (2016: 8.3245) for the notional amount (see note 32(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$28 million for the year ended December 31, 2017 (2016: nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

- b. As at December 31, 2017, the Group had fixed-to-floating cross currency swap contracts with an aggregate notional contract amount of US\$500 million (approximately HK\$3,879 million) (2016: US\$500 million (approximately HK\$3,879 million)). Maturity of these swap contracts matches with the maturity of the underlying fixed rate borrowings and the Group has fixed the USD/HKD exchange rate at 7.7570 (2016: 7.7570) for the notional amounts (see note 32(c)(i)). The Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK\$3,879 million (2016: approximately HK\$3,879 million). Accordingly, the Group had a synthetic fixed-to-fixed cross currency swap contract position and re-designated such swap contracts as cash flow hedges. The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$38 million for the year ended December 31, 2017 (2016: loss of approximately HK\$17 million).
- c. As at December 31, 2017, the Group had a floating-to-fixed interest rate swap contract with notional contract amount of HK\$1,500 million. The contract pre-determined the interest rate at a fixed level. The contract was designated as cash flow hedge of the interest rate risk in the Group's floating rate borrowings (see note 32(c)(ii)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$3 million for the year ended December 31, 2017 (2016: gain of approximately HK\$1 million).

These swap and forward contracts were designated as cash flow hedges of the foreign currency risk in the Group's foreign currency denominated borrowings or the interest rate risk in the Group's borrowings at floating interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap and forward contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

25 EMPLOYEE BENEFITS

a. Employee retirement benefits - Defined contribution retirement schemes

The Group operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

b. Equity compensation benefits

i. Share Option Scheme of PCCW

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

i. Share Option Scheme of PCCW (continued)

- (i) The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCCW and to encourage eligible participants to work towards enhancing the value of PCCW and its shares (the “PCCW Shares”) for the benefit of PCCW and its shareholders as a whole.
- (ii) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of PCCW and its subsidiaries (the “PCCW Group”) or any member of it, whether in full time or part time employment of the PCCW Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCCW Group or any member of it and any other person whomsoever is determined by the PCCW Board as having contributed to the development, growth or benefit of the PCCW Group or any member of it or as having spent any material time in or about the promotion of the PCCW Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.
- (iii) The maximum number of PCCW Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the PCCW Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) requirements, the 10% limit may be renewed with prior shareholders’ approval. The overall limit on the number of PCCW Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of PCCW must not exceed 30% of the PCCW Shares in issue from time to time.
- (iv) The total number of PCCW Shares issued and to be issued upon exercise of options granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the PCCW Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates, the said limit is reduced to 0.1% of the PCCW Shares in issue and HK\$5 million in aggregate value based on the closing price of the PCCW Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders’ approval at general meeting.
- (v) The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the PCCW Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.
- (vi) The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.
- (vii) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCCW Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the PCCW Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade PCCW Shares on the Stock Exchange.
- (viii) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCCW Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

i. Share Option Scheme of PCCW (continued)

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2017.

ii. Share Stapled Units Option Scheme of the HKT Trust and HKT

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

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

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and 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 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 2011-2021 Option Scheme if this will result in such limit being exceeded.
- (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 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of 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.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

ii. Share Stapled Units Option Scheme of the HKT Trust and HKT (continued)

- (5) The 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the HKT Board, provided that such terms and conditions shall not be inconsistent with the 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.
- (6) Upon acceptance of the offer, the grantee shall pay HK\$1.00 to 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 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 2011-2021 Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date, after which period no further options shall be granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects.

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

iii. Share Stapled Units Award Schemes of HKT

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, in respect of which the most recent changes were approved by the Approving Body (as defined below) on February 6, 2018 (collectively the "Share Stapled Units Award Schemes"). The purposes of the Share Stapled Units Award Schemes are to incentivize and reward participants for their contribution to the growth of HKT and its subsidiaries (the "HKT Limited Group") and to provide the HKT Limited Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the participants.

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

The 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 Share Stapled Units Award Schemes (the "Approving Body") and an independent trustee (the "Trustee") appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iii. Share Stapled Units Award Schemes of HKT (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, PCCW's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme, and all other rights or entitlements granted by 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.

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

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

No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2017.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iii. Share Stapled Units Award Schemes of HKT (continued)

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units	
	2016	2017
Beginning of year	9,596,941	5,197,383
Purchase from the market by the Trustee at weighted average market price of HK\$10.44 per Share Stapled Unit	-	540,000
Share Stapled Units vested	(4,399,558)*	(4,647,596)
End of year	5,197,383	1,089,787

* Included 1,302 Share Stapled Units vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committees on compassionate grounds.

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at date of award

	2016		2017	
	Weighted average fair value at date of award HK\$	Number of Share Stapled Units	Weighted average fair value at date of award HK\$	Number of Share Stapled Units
Beginning of year	9.27	8,155,710	9.93	5,764,257
Awarded (note (3))	10.89	2,160,944	10.04	2,392,160
Forfeited (note (4))	9.57	(154,141)	10.01	(119,259)
Vested (note (5))	9.19	(4,398,256)	9.72	(4,647,596)
End of year (note (2))	9.93	5,764,257	10.30	3,389,562

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iii. Share Stapled Units Award Schemes of HKT (continued)

(2) Terms of unvested Share Stapled Units as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	-
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	-
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	749,315	-
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	640,488	-
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	639,494	613,158
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	-
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	426,187
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	-	1,175,589
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	-	1,174,628
			5,764,257	3,389,562

The unvested Share Stapled Units at December 31, 2017 had a weighted average remaining vesting period of 0.6 year (2016: 0.45 year).

(3) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	654,800	-
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	653,770	-
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	-
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	-
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	-	1,196,587
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	-	1,195,573
			2,160,944	2,392,160

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iii. Share Stapled Units Award Schemes of HKT (continued)

(4) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,772	-
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	23,200	-
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	67,450	33,202
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	-	333
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	7,665	-
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	18,466	7,148
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	14,312	10,297
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	14,276	26,336
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	-	20,998
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	-	20,945
			154,141	119,259

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	709,786	-
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	2,926,276	-
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	-	2,848,169
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	1,215	-
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	-	882
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	760,979	-
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	742,167
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	-	630,191
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	-	426,187
			4,398,256	4,647,596

The fair value of the Share Stapled Units awarded during the year at the dates of award are measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year ended December 31, 2017, share-based compensation expenses of HK\$25 million (2016: HK\$33 million) is recognized for the HKT Share Stapled Units Award Schemes in the consolidated income statement and obligation in liabilities in the consolidated statement of financial position, respectively.

iv. Share award schemes of PCCW

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

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

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

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

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

The PCCW Purchase Scheme and the PCCW Subscription Scheme expired on November 15, 2012 however the PCCW Shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the PCCW Purchase Scheme and the PCCW Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the PCCW Shares, in the future, in respect of which the most recent changes were approved by the PCCW Approving Body on February 7, 2018. The PCCW Approving Body may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

A summary of movements in PCCW Shares held by the Group under the PCCW Share Award Schemes in respect of eligible employees of the Company and/or its subsidiaries during the year is as follows:

	Number of PCCW Shares	
	2016	2017
Beginning of year	5,449,041	9,918,160
Purchase from the market by the Trustee at weighted average market price of HK\$4.79 per PCCW Share	-	2,022,000
PCCW Shares obtained under the PCCW Subscription Scheme	7,500,000	-
PCCW Shares vested	(3,030,881)*	(3,802,280)
End of year	9,918,160	8,137,880

* Included 1,473 PCCW Shares vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committees on compassionate grounds.

Details of PCCW Shares awarded pursuant to the PCCW Share Award Schemes during the year and the unvested PCCW shares are as follows:

(1) Movements in the number of unvested PCCW Shares and their related weighted average fair value on the date of award

	2016		2017	
	Weighted average fair value at date of award HK\$	Number of PCCW Shares	Weighted average fair value at date of award HK\$	Number of PCCW Shares
The PCCW Purchase Scheme:				
Beginning of year	5.01	1,428,837#	5.20	2,821,647
Awarded (note (3))	5.17	2,286,122	4.60	2,406,839
Vested (note (5))	4.81	(893,312)	5.23	(1,678,590)
End of year (note (2))	5.20	2,821,647	4.78	3,549,896
The PCCW Subscription Scheme:				
Beginning of year	4.83	3,147,962#	5.10	3,384,043
Awarded (note (3))	5.01	2,523,480	4.60	2,838,846
Forfeited (note (4))	4.96	(151,303)	4.83	(187,440)
Vested (note (5))	4.60	(2,136,096)	5.16	(2,123,690)
End of year (note (2))	5.10	3,384,043	4.72	3,911,759
Total		6,205,690		7,461,655

During the year ended December 31, 2016, 28,575 PCCW Shares awarded on May 7, 2015 under the PCCW Subscription Scheme were re-designated as awarded under the PCCW Purchase Scheme.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(2) Terms of unvested PCCW Shares as at end of the reporting period

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW Shares	
			2016	2017
The PCCW Purchase Scheme:				
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	535,525	-
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	197,791
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	945,266
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,203,415
			2,821,647	3,549,896
The PCCW Subscription Scheme:				
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	936,146	-
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,222,917	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,221,936	1,163,436
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	1,522
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,373,863
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,372,938
			3,384,043	3,911,759
Total			6,205,690	7,461,655

The PCCW Shares unvested at December 31, 2017 had a weighted average remaining vesting period of 0.6 year (2016: 0.68 year).

(3) Details of PCCW Shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW Shares	
			2016	2017
The PCCW Purchase Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	-
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	-
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,203,415
			2,286,122	2,406,839

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(3) Details of PCCW Shares awarded during the year (continued)

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW Shares	
			2016	2017
The PCCW Subscription Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,260,728	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,259,708	-
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	-
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,419,915
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,418,931
			2,523,480	2,838,846
Total			4,809,602	5,245,685

(4) Details of PCCW Shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW Shares	
			2016	2017
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	24,411	-
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	15,040	-
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	36,269	14,044
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	37,811	22,851
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	37,772	58,500
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	46,052
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	45,993
			151,303	187,440

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(5) Details of PCCW Shares vested during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW Shares	
			2016	2017
The PCCW Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	-
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	535,532	-
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	535,525
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	-	197,799
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	-	945,266
			893,312	1,678,590
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,177,882	-
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	958,214	-
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	922,102
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	-	1,200,066
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	-	1,522
			2,136,096	2,123,690
Total			3,029,408	3,802,280

The fair value of the PCCW Shares awarded during the year at the dates of award are measured by the quoted market price of the PCCW Shares at the respective award dates.

During the year ended December 31, 2017, share-based compensation expenses of HK\$25 million (2016: HK\$20 million) is recognized in the consolidated income statement and obligation in liabilities in the consolidated statement of financial position, respectively.

26 SHARE CAPITAL

	2016		2017	
	Number of shares	Nominal value HK\$ million	Number of shares	Nominal Value HK\$ million
Authorized:				
Ordinary shares of US\$1 each				
Beginning and end of year	650,000,000	5,070	650,000,000	5,070
Issued and fully paid:				
Ordinary shares of US\$1 each				
Beginning of year	636,000,005	4,961	636,000,008	4,961
Issued during the year (note (a))	3	-	2	-
End of year	636,000,008	4,961	636,000,010	4,961

(a) During the year ended 31 December, 2017, the Company issued two ordinary shares of US\$1 each to the sole shareholder of the Company at a premium of approximately HK\$13 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES

In HK\$ million	2016								Total
	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserves	Retained profits	
At January 1, 2016	21,765	28	91	(695)	(268)	-	(10)	4,403	25,314
Comprehensive income/(loss)									
Profit for the year	-	-	-	-	-	-	-	4,857	4,857
Other comprehensive income/(loss)									
<i>Items that have been reclassified or may be reclassified subsequently to consolidated income statement:</i>									
Exchange differences on translating foreign operations	-	-	(93)	-	-	-	-	-	(93)
Available-for-sale financial assets - changes in fair value (<i>note 19</i>)	-	-	-	-	-	(2)	-	-	(2)
- transfer to consolidated income statement on impairment	-	-	-	-	-	49	-	-	49
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	711	-	-	-	711
- transfer to consolidated income statement	-	-	-	-	48	-	-	-	48
Total comprehensive income/(loss) for the year	-	-	(93)	-	759	47	-	4,857	5,570
Transactions with equity holders									
<i>Contributions by and distributions to equity holders:</i>									
Issue of ordinary shares	194	-	-	-	-	-	-	-	194
Final dividend paid in respect of previous year (<i>note 12</i>)	-	-	-	-	-	-	-	(2,141)	(2,141)
Interim dividend declared and paid in respect of the current year (<i>note 12</i>)	-	-	-	-	-	-	-	(2,051)	(2,051)
Receipt of PCCW shares under the PCCW Subscription Scheme	-	-	-	-	-	-	36	-	36
Total transactions with equity holders	194	-	-	-	-	-	36	(4,192)	(3,962)
At December 31, 2016	21,959	28	(2)	(695)	491	47	26	5,068	26,922

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES (CONTINUED)

	2017								
In HK\$ million	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Available- for-sale financial assets reserve	Other reserves	Retained profits	Total
At January 1, 2017	21,959	28	(2)	(695)	491	47	26	5,068	26,922
Comprehensive income/(loss)									
Profit for the year	-	-		-		-	-	5,022	5,022
Other comprehensive income/(loss)									
<i>Items that have been reclassified or may be reclassified subsequently to consolidated income statement:</i>									
Exchange differences on translating foreign operations	-	-	175	-		-	-	-	175
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	(280)	-	-	-	(280)
- transfer to consolidated income statement	-	-	-	-	(332)	-	-	-	(332)
Total comprehensive income/(loss) for the year	-	-	175	-	(612)	-	-	5,022	4,585
Transactions with equity holders									
<i>Contributions by and distributions to equity holders:</i>									
Issue of ordinary shares	13	-	-	-	-	-	-	-	13
Final dividend paid in respect of previous year (note 12)	-	-	-	-	-	-	-	(2,632)	(2,632)
Interim dividend declared and paid in respect of the current year (note 12)	-	-	-	-	-	-	-	(2,129)	(2,129)
Total transactions with equity holders	13	-	-	-	-	-	-	(4,761)	(4,748)
At December 31, 2017	21,972	28	173	(695)	(121)	47	26	5,329	26,759

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 DEFERRED INCOME TAX

a. Movements in deferred income tax liabilities/(assets) during the year are as follows:

In HK\$ million	2016			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	2,544	(233)	10	2,321
Charged/(credited) to the consolidated income statement (<i>note 11(a)</i>)	173	(85)	(15)	73
Exchange differences	-	2	-	2
End of year	2,717	(316)	(5)	2,396

In HK\$ million	2017			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	2,717	(316)	(5)	2,396
Charged/(credited) to the consolidated income statement (<i>note 11(a)</i>)	306	(178)	1	129
Exchange differences	1	(3)	-	(2)
End of year	3,024	(497)	(4)	2,523

In HK\$ million	2016	2017
Deferred income tax assets:		
- to be recovered after more than 12 months	(297)	(433)
- to be recovered within 12 months	(20)	(33)
Deferred income tax assets recognized in the consolidated statement of financial position	(317)	(466)
Deferred income tax liabilities:		
- to be recovered after more than 12 months	2,535	2,829
- to be recovered within 12 months	178	160
Deferred income tax liabilities recognized in the consolidated statement of financial position	2,713	2,989
Deferred income tax liabilities (net)	2,396	2,523

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28 DEFERRED INCOME TAX (CONTINUED)

- b. As at December 31, 2017, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$2,207 million (2016: HK\$3,389 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$41 million (2016: HK\$6 million) will expire within 1 to 5 years. Estimated adjusted tax losses of HK\$263 million will expire after 5 years (2016: HK\$168 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

Deferred income tax assets had been recognized for tax loss carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable.

29 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2017, the Group had carrier licence fee liabilities repayable as follows:

In HK\$ million	2016			2017		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Payable within a period						
- not exceeding one year	173	7	180	173	7	180
- over one year, but not exceeding two years	123	19	142	123	19	142
- over two years, but not exceeding five years	312	112	424	257	75	332
- over five years	109	41	150	75	25	100
	717	179	896	628	126	754
Less: Amounts payable within one year included under current liabilities	(173)	(7)	(180)	(173)	(7)	(180)
Non-current portion	544	172	716	455	119	574

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 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	2016	2017
Profit before income tax	5,661	5,996
Adjustments for:		
Finance costs, net	1,150	1,139
Gain on disposal of an available-for-sale financial asset	-	(6)
Net gain on fair value hedging instruments	(4)	-
Other gain	(7)	(5)
(Gain)/loss on disposals of property, plant and equipment and intangible assets, net	(3)	1
Provision for inventory obsolescence	6	12
Impairment loss for doubtful debts	303	259
Depreciation of property, plant and equipment	1,432	1,381
Amortization of intangible assets	4,364	4,291
Amortization of land lease premium	12	13
Share of results of joint ventures	20	28
Share of results of associates	13	12
Provision for impairment on an available-for-sale financial asset	54	-
Provision for impairment on interests in associates	-	154
Share-based payment expenses	53	50
Increase in PCCW shares and Share Stapled Units for equity compensation scheme	-	(15)
Decrease/(increase) in operating assets		
- inventories	(44)	(54)
- trade receivables, prepayments, deposits and other current assets	(643)	(294)
- restricted cash	(26)	(15)
- amounts due from related companies	-	18
- other non-current assets	20	(82)
(Decrease)/increase in operating liabilities		
- trade payables, accruals and other payables	323	(529)
- other long-term liabilities	(30)	(4)
- advances from customers	60	200
- amount due to a related company	(88)	-
- deferred income (non-current)	(58)	286
Cash generated from operations	12,568	12,836
Interest received	13	26
Income tax paid, net of tax refund		
- Hong Kong profits tax paid	(494)	(665)
- Overseas profits tax paid	(52)	(41)
Net cash generated from operating activities	12,035	12,156

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

b. Movements of financial liabilities arising from financing activities

Movements of financial liabilities arising from financial activities for the year ended December 31, 2017 as follows:

In HK\$ million	2017			Total
	Interest payable (included in accruals and other payables)	Long-term borrowings	Derivative financial instruments, net	
As at January 1, 2017	178	38,193	(263)	38,108
Cash flows in financing activities				
New borrowings raised, net	-	5,275	-	5,275
Finance costs (paid)/received	(877)	-	21	(856)
Repayments of borrowings	-	(4,650)	-	(4,650)
Classified as investing activities (note 32b(i))	-	(130)	-	(130)
Non-cash movement	886	458	169	1,513
As at December 31, 2017	187	39,146	(73)	39,260

c. Analysis of cash and cash equivalents

In HK\$ million	2016	2017
Total cash and bank balances	3,368	3,718
Less: Short-term deposits	(450)	(450)
Restricted cash	(36)	(51)
Cash and cash equivalents as at December 31,	2,882	3,217

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31 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 equity holders of the Group, 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.

The Group is not subject to externally imposed capital requirements, except for the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority and a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority to a subsidiary of the Group.

32 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

2016					
In HK\$ million	Financial assets at amortised cost	Assets at fair value through profit or loss	Available-for-sale financial assets	Derivative used for hedging	Total
Non-current assets					
Available-for-sale financial assets	-	-	77	-	77
Financial assets at fair value through profit or loss	-	42	-	-	42
Derivative financial instruments	-	-	-	277	277
Other non-current assets	138	-	-	-	138
	138	42	77	277	534
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	4,583	-	-	-	4,583
Trade receivables, net	3,035	-	-	-	3,035
Financial assets at fair value through profit or loss	-	55	-	-	55
Amounts due from related companies	98	-	-	-	98
Restricted cash	36	-	-	-	36
Short-term deposits	450	-	-	-	450
Cash and cash equivalents	2,882	-	-	-	2,882
	11,084	55	-	-	11,139
Total	11,222	97	77	277	11,673

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

The table below analyses financial instruments by category: (continued)

In HK\$ million	Derivative used for hedging	2016 Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	-	2,474	2,474
Accruals and other payables	-	4,978	4,978
Carrier licence fee liabilities	-	173	173
Amounts due to fellow subsidiaries and the immediate holding company	-	7,748	7,748
	-	15,373	15,373
Non-current liabilities			
Long-term borrowings	-	38,193	38,193
Derivative financial instruments	14	-	14
Carrier licence fee liabilities	-	544	544
Other long-term liabilities	-	423	423
	14	39,160	39,174
Total	14	54,533	54,547

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

The table below analyses financial instruments by category: (continued)

In HK\$ million	2017				
	Financial assets at amortised cost	Assets at fair value through profit or loss	Available-for-sale financial assets	Derivative used for hedging	Total
Non-current assets					
Available-for-sale financial assets	-	-	77	-	77
Financial assets at fair value through profit or loss	-	20	-	-	20
Derivative financial instruments*	-	-	-	223	223
Other non-current assets	119	-	-	-	119
	119	20	77	223	439
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	5,004	-	-	-	5,004
Trade receivables, net	2,787	-	-	-	2,787
Financial assets at fair value through profit or loss	-	28	-	-	28
Amounts due from related companies	77	-	-	-	77
Restricted cash	51	-	-	-	51
Short-term deposits	450	-	-	-	450
Cash and cash equivalents	3,217	-	-	-	3,217
	11,586	28	-	-	11,614
Total	11,705	48	77	223	12,053

*As at December 31, 2017, derivative financial instruments of HK\$8 million (2016:HK\$37 million) related to the foreign exchange forward contracts with notional contract amounts of US\$376 million (approximately HK\$2,905 million) were designated as cash flow hedge of US\$300 million zero coupon guaranteed notes due 2030. These guaranteed notes may be redeemed at the option of the Group on January 15, 2020 at an early redemption amount of US\$376 million. Please refer to note 23(b) and note 24(a) for details of the guaranteed notes and the foreign exchange contract respectively.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

The table below analyses financial instruments by category: (continued)

In HK\$ million	Derivative used for hedging	2017 Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	-	1,874	1,874
Accruals and other payables	-	5,136	5,136
Carrier licence fee liabilities	-	173	173
Amounts due to fellow subsidiaries and the immediate holding company	-	8,275	8,275
	-	15,458	15,458
Non-current liabilities			
Long-term borrowings	-	39,146	39,146
Derivative financial instruments	150	-	150
Carrier licence fee liabilities	-	455	455
Other long-term liabilities	-	591	591
	150	40,192	40,342
Total	150	55,650	55,800

Exposures to credit, liquidity, and market risks (including foreign currency risk and interest rate risk) arise 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. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposure to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The 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 payables 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, 2016 and 2017, 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 22(b).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2016 and 2017, the amounts due from related companies and other receivables were fully performing.

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32 FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the 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 34, 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 obligation to guarantee performance of the subsidiaries in the normal course of their businesses. Please refer to note 34 for details.

The following table details the remaining contractual maturities at the end of the reporting period 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 periods) and the earliest date the Group can be required to pay:

In HK\$ million	2016				Total contractual undiscounted cash outflow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
Current liabilities						
Trade payables	(2,474)	-	-	-	(2,474)	(2,474)
Accruals and other payables	(4,978)	-	-	-	(4,978)	(4,978)
Carrier licence fee liabilities	(180)	-	-	-	(180)	(173)
Amounts due to fellow subsidiaries and the immediate holding company	(7,748)	-	-	-	(7,748)	(7,748)
	(15,380)	-	-	-	(15,380)	(15,373)
Non-current liabilities						
Long-term borrowings (note (i))	(796)	(1,971)	(21,726)	(21,240)	(45,733)	(38,193)
Derivative financial instruments	(37)	(36)	(104)	216	39	(14)
Carrier licence fee liabilities	-	(142)	(424)	(150)	(716)	(544)
Other long-term liabilities (note (ii))	(37)	-	(7)	(1,021)	(1,065)	(423)
	(870)	(2,149)	(22,261)	(22,195)	(47,475)	(39,174)
Total	(16,250)	(2,149)	(22,261)	(22,195)	(62,855)	(54,547)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

In HK\$ million	2017				Total contractual undiscounted cash outflow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
Current liabilities						
Trade payables	(1,874)	-	-	-	(1,874)	(1,874)
Accruals and other payables	(5,136)	-	-	-	(5,136)	(5,136)
Carrier licence fee liabilities	(180)	-	-	-	(180)	(173)
Amounts due to fellow subsidiaries and the immediate holding company	(8,275)	-	-	-	(8,275)	(8,275)
	(15,465)	-	-	-	(15,465)	(15,458)
Non-current liabilities						
Long-term borrowings (note (i))	(937)	(10,198)	(14,064)	(21,134)	(46,333)	(39,146)
Derivative financial instruments	1	(1)	(5)	(172)	(177)	(150)
Carrier licence fee liabilities	-	(142)	(332)	(100)	(574)	(455)
Other long-term liabilities (note (ii))	(6)	(1)	(25)	(1,046)	(1,078)	(600)
	(942)	(10,342)	(14,426)	(22,452)	(48,162)	(40,351)
Total	(16,407)	(10,342)	(14,426)	(22,452)	(63,627)	(55,809)

- (i) As at December 31, 2017, bank borrowings of HK\$1,820 million (2016: HK\$1,950 million) included in long-term borrowings were drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Group.
- (ii) As at December 31, 2017, other long-term liabilities included HK\$164 million (2016: HK\$102 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)). Please refer to note 23(d) and note 24(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (*CONTINUED*)

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposures 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 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 Finance and Management Committee, a sub-committee of the Executive Committee of the HKT Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit the exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange 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.

The Group's borrowings are denominated in either Hong Kong dollars, United States dollars or Euro. As at December 31, 2017, all of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. The cross currency swap and foreign exchange forward contracts outstanding as at December 31, 2017 with an aggregate notional contract amount of US\$2,126 million (approximately HK\$16,478 million) (2016: US\$2,126 million (approximately HK\$16,478 million)) and EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the 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.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

The following table details the Group's exposure as at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies.

In HK\$ million	2016			2017		
	United States Dollars	Euro	Renminbi	United States Dollars	Euro	Renminbi
Trade receivables	1,033	168	165	1,501	227	105
Amounts due from related companies	2	-	7	-	-	10
Cash and cash equivalents	1,061	51	68	616	130	101
Trade payables	(1,680)	(153)	(36)	(1,288)	(115)	(55)
Long-term borrowings	(15,651)	(1,613)	-	(15,802)	(1,830)	-
Gross exposure arising from monetary (liabilities)/assets	(15,235)	(1,547)	204	(14,973)	(1,588)	161
Net monetary assets denominated in respective entities' functional currencies	(111)	(78)	(215)	(160)	(78)	(168)
Borrowings with hedging instruments	15,651	1,613	-	15,802	1,830	-
Overall net exposure	305	(12)	(11)	669	164	(7)

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Group would have increased/decreased by approximately HK\$6 million (2016: HK\$3 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2017 would have decreased/increased by approximately HK\$158 million (2016: HK\$157 million) mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Group's profit after tax (2016: no material impact).

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Group would have increased/decreased by approximately HK\$7 million (2016: decreased/increased by approximately HK\$1 million), mainly as a result of foreign exchange gains/losses (2016: losses/gains) on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2017 would have decreased/increased by approximately HK\$92 million (2016: HK\$81 million) mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred as at the end of the reporting period and had been applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2016 and 2017.

ii. Interest rate risk

As the Group has no significant 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 long-term borrowings and amount due to immediate holding company. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group had fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings. The Group further entered into floating-to-fixed swap contracts, therefore the Group had a synthetic fixed-to-fixed cross currency swap position and re-designated it as cash flow hedging instrument accordingly.

The Group also entered into a floating-to-fixed interest rate swap contract which was designated as cash flow hedge, to hedge the interest rate risk arising from the Group's certain floating rate borrowings.

The following table details the interest rate profile of the Group's borrowings as at the end of the reporting periods, after taking into account the effect of cross currency swap contracts and interest rate swap contracts designated as cash flow hedging instruments.

	2016		2017	
	Effective interest rate %	HK\$ million	Effective interest rate %	HK\$ million
Net fixed rate borrowings:				
Long-term bank borrowings with hedging instruments	1.84	1,484	1.84	1,488
Long-term borrowings with hedging instruments	3.51	17,264	3.72	17,632
Variable rate borrowings:				
Long-term borrowings	1.46	19,445	1.63	20,026
Intercompany loan	0.59	7,244	0.87	7,236
Total borrowings		45,437		46,382

As at December 31, 2017, if interest rates on variable rate borrowings had increased/decreased by 50 basis points (2016: 50 basis points), with all other variables held constant, the Group's profit after tax would have decreased/increased by approximately HK\$97 million (2016: HK\$91 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

ii. Interest rate risk (continued)

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred as at the end of the reporting period and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at those dates. The 50 basis points (2016: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2016 and 2017.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 19) and financial assets at fair value through profit or loss (note 20). Other than unquoted equity securities held for strategic purpose, other investments are listed on recognized stock exchange markets.

Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least semi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group long term strategic plans.

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2016 and 2017 except as follows:

In HK\$ million	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	38,193	37,876	39,146	39,271

The fair values of long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy (see note 32(e)).

e. Estimation of fair values

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

e. Estimation of fair values (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value:

In HK\$ million	2016			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale financial assets				
- Unlisted equity securities	-	-	77	77
Derivative financial instruments	-	277	-	277
Financial assets at fair value through profit or loss	97	-	-	97
Total assets	97	277	77	451
Liability				
Derivative financial instruments	-	(14)	-	(14)
In HK\$ million	2017			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale financial assets				
- Unlisted equity securities	-	-	77	77
Derivative financial instruments	-	223	-	223
Financial assets at fair value through profit or loss	48	-	-	48
Total assets	48	223	77	348
Liability				
Derivative financial instruments	-	(150)	-	(150)

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting periods. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price.

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts, interest rate swap contracts and foreign exchange forward contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flow discounted at the market quoted swap rates. The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with same notional amounts adjusted for maturity differences.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. During the year, there was no movement for the unlisted available-for-sale financial instrument of the Group. As at December 31, 2017, the balance amounted to HK\$77 million (2016: HK\$77 million) was included in the level 3 category.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2016 and 2017.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 FINANCIAL INSTRUMENTS (CONTINUED)

f. The Group's valuation process

The Group performs and monitors valuations of financial assets required for financial reporting purposes, including level 3 fair value. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses.

33 COMMITMENTS

a. Capital

In HK\$ million	2016	2017
Authorized and contracted for acquisition of property, plant and equipment	645	823

b. Operating leases

As at December 31, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	2016	2017
Within 1 year	1,066	973
After 1 year but within 5 years	625	1,112
After 5 years	2	451
	1,693	2,536

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2017 (2016: 1 to 9 years). None of the leases include material contingent rentals.

Network capacity and equipment

In HK\$ million	2016	2017
Within 1 year	937	913
After 1 year but within 5 years	844	821
After 5 years	299	235
	2,080	1,969

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2017 (2016: 1 to 15 years). None of the leases include material contingent rentals.

HKT GROUP HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****33 COMMITMENTS (CONTINUED)****c. Others**

As at December 31, 2017, the Group has other outstanding commitments as follows:

In HK\$ million	2016	2017
Operating expenditure commitment	214	214

34 CONTINGENT LIABILITIES

In HK\$ million	2016	2017
Performance guarantees	513	237
Guarantees given to banks in respect of credit facilities granted to an associate	56	60
Others	1	4
	570	301

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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2017 were HK\$27,381 million (2016: HK\$27,181 million) of which the unused facilities amounted to HK\$5,698 million (2016: HK\$6,038 million).

All of the 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 arrangement with financial institutions. If the Group was 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, 2017, none of the covenants relating to drawn down facilities was breached. Further details of the Group's management of liquidity risk are set out in note 32(b).

Summaries of long-term borrowings are set out in note 23.

36 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017

Up to the date of approval of these financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2017 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 40 (Amendment)	Investment Property	January 1, 2018
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2018
HKFRS 4 (Amendment)	Insurance Contracts	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2014-2016 Cycle		January 1, 2018
Annual Improvements to HKFRSs 2015-2017 Cycle		January 1, 2019

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2017 and have not been early adopted in these financial statements.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 (CONTINUED)

None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 15, “Revenue from Contracts with Customers”

HKFRS 15 will replace HKAS 18 which deals with contracts for goods and services, HKAS 11 which deals with construction contracts and related literature. HKFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. HKFRS 15 permits adoption using either the full retrospective approach or a modified retrospective approach. The Group intends to use the full retrospective approach when it adopts HKFRS 15 effective January 1, 2018.

While the Group is continuing to assess the effect of applying HKFRS 15 on the Group’s consolidated financial statements, the Group has identified a number of current revenue recognition policies and disclosures that will be impacted by HKFRS 15. The most significant areas are discussed below. The Group has not yet completed the quantitative assessment of the impact of HKFRS 15.

HKFRS 15 will require the identification of deliverables in contracts with customers that qualify as separate “performance obligations”. The performance obligations identified will depend on the nature of individual customer contracts. These are expected to include mobile handsets, telecommunications and other equipment, gifts provided free of charge and telecommunications services provided to customers.

Where customer contracts contain more than one performance obligation, the transaction price receivable from customers must be allocated between the Group’s performance obligations on a relative standalone selling price basis. The primary impact on revenue reporting will be that when the Group sells telecommunications or other equipment or subsidized mobile handsets together with gifts and telecommunications service agreements to customers, revenue allocated to the equipment, handsets and gifts, which are recognized at contract inception when control typically passes to the customer, will be recorded at their relative standalone fair value and not using the current residual value method as set out in note 2(u)(i). Nevertheless, it is expected that there will be no material impact on the total revenue to be recognized by the Group in the consolidated income statement over the respective contract periods.

Currently, the Group capitalizes subsidized handsets and gifts as customer acquisition costs and amortize these amounts on a straight-line basis over the minimum enforceable contractual periods. Under HKFRS 15, the costs of subsidized handsets and gifts are required to be recognized as costs of goods sold immediately when the corresponding revenue is recognized, rather than the existing treatment of being charged to the consolidated income statement through amortization of customer acquisition costs. The total net profit recognized by the Group over the full contract period is not expected to be materially affected.

The adoption of HKFRS 15 will not have any material impact on the Group’s consolidated statement of cash flow.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 (CONTINUED)

HKFRS 9, “Financial instruments”

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. Furthermore, under the new HKFRS 9, there is a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Measurement of impairment loss on trade receivable based on an expected credit losses model requires the use of historical data as well as forward looking information. HKFRS 9 also relaxes the requirements for hedge effectiveness but contemporaneous documentation is still required. Management is in the process of assessing the impact of HKFRS 9. It is not practicable to provide a reasonable estimate of the effect until the Group completes this detail review. The adoption of HKFRS 9 is also expected to require more disclosures on the Group’s consolidated financial statements.

HKFRS 16, “Leases”

HKFRS 16 will affect primarily the accounting for the Group’s operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 33(b) will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

There are no other new and amended standards and interpretations that are not yet effective which would be expected to have a significant impact on the Group’s results of operations and financial position.