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HKT Trust

(a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)

and

HKT Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6823)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

The directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and HKT Limited (the "Company" or "HKT") are pleased to announce the audited consolidated results of the HKT Trust and of the Company together with the Company's subsidiaries (collectively the "Group") for the year ended December 31, 2018.

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

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

MANAGEMENT REVIEW

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

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

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

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

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

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

OUTLOOK

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

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

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

FINANCIAL REVIEW BY SEGMENT

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

ADJUSTED FUNDS FLOW

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

KEY OPERATING DRIVERS[5]

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

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

Note 2 *Group capital expenditures represent additions to property, plant and equipment and interests in leasehold land. Fulfillment costs and right-of-use assets are considered as part of customer acquisition costs and capital expenditures, respectively, for the purpose of adjusted funds flow calculation.*

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

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

Note 5 *Figures are stated as at the period end.*

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

Telecommunications Services

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

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

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

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

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

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

Telecommunications Services *(Continued)*

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

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

Mobile

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

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

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

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

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

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

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

Other Businesses

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

Eliminations

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

Cost of Sales

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

General and Administrative Expenses

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

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

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

EBITDA[1]

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

Finance Costs, Net

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

Income Tax

Income tax expense for the year ended December 31, 2018 was HK$1,010 million, as compared to HK$898 million a year earlier, representing an effective tax rate of 17% for the year versus an effective tax rate of 16% a year earlier. The income tax expense was lower a year earlier due to the recognition of a deferred income tax asset resulting from a loss-making company turning profitable.

Non-controlling Interests

Non-controlling interests of HK$17 million (2017: HK$12 million) primarily comprised the net profit attributable to the minority shareholders of Sun Mobile Limited.

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

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

CAPITAL EXPENDITURE[2]

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

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

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

HEDGING

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

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

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

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

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

HUMAN RESOURCES

HKT had over 17,200 employees as at December 31, 2018 (2017: 17,600) located in 46 countries and cities. About 64% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND/DISTRIBUTION

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

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

CLOSURE OF BOOKS

The record date for the proposed final distribution will be Friday, May 17, 2019. The register of registered holders of Share Stapled Units, the register of holders of units, the principal and Hong Kong branch registers of members of the Company and the register of beneficial interests as maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Thursday, May 16, 2019 to Friday, May 17, 2019 (both days inclusive), in order to determine entitlements to the proposed final distribution. During such period, no transfer of Share Stapled Units will be effected. In order to qualify for the proposed final distribution, all transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (the "Share Stapled Units Registrar"), for registration no later than 4:30 p.m. on Wednesday, May 15, 2019. Subject to the approval of holders of Share Stapled Units at the AGM, distribution warrants will be despatched to holders of Share Stapled Units on or around Friday, May 31, 2019.

RECORD DATE FOR DETERMINING ELIGIBILITY TO ATTEND AND VOTE AT THE AGM

The record date for determining the entitlement of the holders of Share Stapled Units to attend and vote at the AGM, which is to be held on Thursday, May 9, 2019, will be Friday, May 3, 2019. All transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units must be lodged with the Share Stapled Units Registrar for registration no later than 4:30 p.m. on Friday, May 3, 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

AUDIT COMMITTEE

The Trustee-Manager's Audit Committee and the Company's Audit Committee have reviewed the accounting policies adopted by the Group and the Trustee-Manager, the audited consolidated financial statements of the HKT Trust and HKT Limited for the year ended December 31, 2018 and the audited financial statements of the Trustee-Manager for the same period.

CORPORATE GOVERNANCE CODE

The HKT Trust, the Trustee-Manager and the Company are committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of their businesses, and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2018 annual report will be despatched to holders of Share Stapled Units and available on the above websites in due course.

By order of the boards of
HKT Management Limited
and
HKT Limited
Bernadette M. Lomas
Group General Counsel and Company Secretary

Hong Kong, February 22, 2019

AUDITED CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED
For the year ended December 31, 2018
(In HK$ million except for earnings per Share Stapled Unit/share of the Company)

	Note(s)	2017 (Restated[#])	**2018**
Revenue	3, 4	33,067	**35,187**
Cost of sales		(15,972)	**(17,980)**
General and administrative expenses		(10,137)	**(9,991)**
Other (losses)/gains, net	5	(145)	**2**
Finance costs, net		(1,148)	**(1,350)**
Share of results of associates		(12)	**–**
Share of results of joint ventures		2	**(16)**
Profit before income tax	3, 6	5,655	**5,852**
Income tax	7	(898)	**(1,010)**
Profit for the year		4,757	**4,842**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		4,745	**4,825**
Non-controlling interests		12	**17**
Profit for the year		4,757	**4,842**
Earnings per Share Stapled Unit/share of the Company			
Basic	9	62.69 cents	**63.73 cents**
Diluted	9	62.66 cents	**63.71 cents**

[#] See note 2 for details regarding the restatement as a result of changes in accounting policies.

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

For the year ended December 31, 2018

(In HK$ million)

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

[#] See note 2 for details regarding the restatement as a result of changes in accounting policies.

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND OF HKT LIMITED
As at December 31, 2018
(In HK$ million)

	Note	As at January 1, 2017 (Restated[#])	As at December 31, 2017 (Restated[#])	**As at December 31, 2018**
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		18,019	19,386	**20,601**
Right-of-use assets		2,555	2,220	**2,808**
Interests in leasehold land		253	240	**227**
Goodwill		49,787	49,814	**49,805**
Intangible assets		8,152	7,966	**8,691**
Fulfillment costs		1,378	1,378	**1,336**
Customer acquisition costs		648	611	**632**
Contract assets		349	350	**295**
Interests in associates		130	–	**–**
Interests in joint ventures		725	720	**678**
Available-for-sale financial assets		77	77	**–**
Financial assets at fair value through other comprehensive income		–	–	**77**
Financial assets at fair value through profit or loss		31	20	**8**
Derivative financial instruments		277	223	**148**
Deferred income tax assets		317	468	**465**
Other non-current assets		618	842	**1,065**
		83,316	84,315	**86,836**
Current assets				
Inventories		707	749	**1,080**
Prepayments, deposits and other current assets		2,790	2,772	**2,033**
Contract assets		771	737	**630**
Trade receivables, net	10	3,035	2,787	**3,727**
Amounts due from related companies		96	77	**102**
Financial assets at fair value through profit or loss		13	17	**12**
Restricted cash		36	51	**88**
Short-term deposits		450	450	**523**
Cash and cash equivalents		2,882	3,217	**2,534**
		10,780	10,857	**10,729**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND OF HKT LIMITED (CONTINUED)
As at December 31, 2018
(In HK$ million)

	Note	As at January 1, 2017 (Restated[#])	As at December 31, 2017 (Restated[#])	**As at December 31, 2018**
Current liabilities				
Trade payables	11	(2,474)	(1,874)	**(1,787)**
Accruals and other payables		(4,969)	(5,129)	**(4,771)**
Carrier licence fee liabilities		(173)	(173)	**(173)**
Amount due to a related company		(37)	–	**–**
Amount due to a fellow subsidiary		(465)	(969)	**(1,675)**
Advances from customers		(265)	(241)	**(266)**
Contract liabilities		(1,276)	(1,288)	**(1,415)**
Lease liabilities		(1,414)	(1,157)	**(1,293)**
Current income tax liabilities		(797)	(856)	**(761)**
		(11,870)	(11,687)	**(12,141)**
Non-current liabilities				
Long-term borrowings		(38,193)	(39,146)	**(40,169)**
Derivative financial instruments		(14)	(150)	**(152)**
Deferred income tax liabilities		(2,713)	(2,989)	**(3,393)**
Carrier licence fee liabilities		(544)	(455)	**(357)**
Contract liabilities		(801)	(952)	**(1,010)**
Lease liabilities		(1,200)	(1,307)	**(1,900)**
Other long-term liabilities		(420)	(596)	**(849)**
		(43,885)	(45,595)	**(47,830)**
Net assets		38,341	37,890	**37,594**
CAPITAL AND RESERVES				
Share capital		8	8	**8**
Reserves		38,270	37,842	**37,547**
Equity attributable to holders of Share Stapled Units/shares of the Company		38,278	37,850	**37,555**
Non-controlling interests		63	40	**39**
Total equity		38,341	37,890	**37,594**

[#] See note 2 for details regarding the restatement as a result of changes in accounting policies.

NOTES

1. BASIS OF PREPARATION

The HKT Trust (the "HKT Trust") is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and HKT Limited. In accordance with the Trust Deed, HKT Trust and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2018 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the "Company") and its subsidiaries (together the "Group"), and the Group's interests in associates and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2018 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in associates and joint ventures, and the Company's statement of financial position.

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

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, principal accounting policies and the related explanatory information are common to the HKT Trust and the Company.

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

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

The following new or amended Hong Kong Financial Reporting Standards (the "new HKFRSs") are mandatory for the first time for the financial year beginning January 1, 2018 and the impacts of the adoption are disclosed in note 2.

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

1. BASIS OF PREPARATION (CONTINUED)

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

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

The Groups have early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 and the impact of the adoption is disclosed in note 2. The Groups have not early adopted any other new HKFRSs that are not yet effective for the current accounting period.

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

The financial information of the Trustee-Manager relating to the years ended December 31, 2017 and 2018 included in this preliminary announcement of annual results for the year ended December 31, 2018 does not constitute the Trustee-Manager's statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Trustee-Manager's financial statements combined with the HKT Trust and HKT Limited consolidated financial statements (collectively the "Combined Financial Statements") for the year ended December 31, 2017 have been delivered to the Registrar of Companies and the Combined Financial Statements for the year ended December 31, 2018 will be delivered to the Registrar of Companies in due course.

- The Trustee-Manager's auditor has reported on the financial statements of the Trustee-Manager for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

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

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management has also made judgements in applying the Groups' accounting policies.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs

This note explains the impact of the adoption of HKFRS 9 (2014) *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, and the early adoption of HKFRS 16 *Leases* on the Groups' financial statements.

Impacts on the financial statements

As a result of the changes in the Groups' accounting policies, prior year financial statements had to be restated as follows:

In HK$ million (except for earnings per Share Stapled Unit/share of the Company)

Consolidated income statement for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (Note 2(i))	HKFRS 16 (Note 2(ii))	Restated
Revenue	33,258	(161)	(30)	33,067
Cost of sales	(14,161)	(2,207)	396	(15,972)
General and administrative expenses	(11,786)	1,938	(289)	(10,137)
Finance costs, net	(1,076)	–	(72)	(1,148)
Profit before income tax*	6,080	(430)	5	5,655
Income tax	(971)	71	2	(898)
Profit for the year*	5,109	(359)	7	4,757
Profit attributable to:				
Holders of Share Stapled Units/shares of the Company	5,097	(359)	7	4,745
Non-controlling interests	12	–	–	12
Profit for the year	5,109	(359)	7	4,757
Earnings per Share Stapled Unit/share of the Company				
Basic (cents)	67.34	(4.74)	0.09	62.69
Diluted (cents)	67.31	(4.74)	0.09	62.66

In HK$ million

Consolidated statement of comprehensive income for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (Note 2(i))	HKFRS 16 (Note 2(ii))	Restated
Profit for the year	5,109	(359)	7	4,757
Exchange differences on translating foreign operations	180	–	1	181
Total comprehensive income for the year*	4,677	(359)	8	4,326
Attributable to:				
Holders of Share Stapled Units/shares of the Company	4,665	(359)	8	4,314
Non-controlling interests	12	–	–	12
Total comprehensive income for the year	4,677	(359)	8	4,326

* The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

Impacts on the financial statements *(continued)*

In HK$ million

Consolidated statement of financial position (extract)	As at December 31, 2016 As originally presented	HKFRS 15 (Note 2(i))	HKFRS 16 (Note 2(ii))	As at January 1, 2017 Restated
ASSETS AND LIABILITIES				
Non-current assets				
Right-of-use assets	–	–	2,555	2,555
Intangible assets	10,695	(2,543)	–	8,152
Fulfillment costs	–	1,378	–	1,378
Customer acquisition costs	–	648	–	648
Contract assets	–	349	–	349
Other non-current assets	610	–	8	618
Current assets				
Prepayments, deposits and other current assets	5,226	(2,344)	(92)	2,790
Contract assets	–	771	–	771
Current liabilities				
Accruals and other payables	(5,019)	–	50	(4,969)
Advances from customers	(2,126)	1,861	–	(265)
Contract liabilities	–	(1,276)	–	(1,276)
Lease liabilities	–	–	(1,414)	(1,414)
Current income tax liabilities	(1,008)	200	11	(797)
Non-current liabilities				
Deferred income	(1,021)	1,021	–	–
Contract liabilities	–	(801)	–	(801)
Lease liabilities	–	–	(1,200)	(1,200)
Net assets*	39,159	(736)	(82)	38,341
CAPITAL AND RESERVES				
Reserves	39,088	(736)	(82)	38,270
Total equity*	39,159	(736)	(82)	38,341

***** The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

Impacts on the financial statements *(continued)*

In HK$ million

Consolidated statement of financial position (extract)	As at December 31, 2017 As originally presented	HKFRS 15 (Note 2(i))	HKFRS 16 (Note 2(ii))	As at December 31, 2017 Restated	HKFRS 9 (2014) (Note 2(iii))	As at January 1, 2018 Restated
ASSETS AND LIABILITIES						
Non-current assets						
Right-of-use assets	–	–	2,220	2,220	–	2,220
Intangible assets	10,895	(2,929)	–	7,966	–	7,966
Fulfillment costs	–	1,378	–	1,378	–	1,378
Customer acquisition costs	–	611	–	611	–	611
Contract assets	–	350	–	350	–	350
Available-for-sale financial assets	77	–	–	77	(77)	–
Financial assets at FVOCI[i]	–	–	–	–	77	77
Deferred income tax assets	466	–	2	468	–	468
Other non-current assets	692	–	150	842	–	842
Current assets						
Prepayments, deposits and other current assets	5,484	(2,665)	(47)	2,772	–	2,772
Contract assets	–	737	–	737	–	737
Current liabilities						
Accruals and other payables	(5,183)	–	54	(5,129)	–	(5,129)
Advances from customers	(2,326)	2,085	–	(241)	–	(241)
Contract liabilities	–	(1,288)	–	(1,288)	–	(1,288)
Lease liabilities	–	–	(1,157)	(1,157)	–	(1,157)
Current income tax liabilities	(1,138)	271	11	(856)	–	(856)
Non-current liabilities						
Deferred income	(1,307)	1,307	–	–	–	–
Contract liabilities	–	(952)	–	(952)	–	(952)
Lease liabilities	–	–	(1,307)	(1,307)	–	(1,307)
Net assets*	39,059	(1,095)	(74)	37,890	–	37,890
CAPITAL AND RESERVES						
Reserves	39,011	(1,095)	(74)	37,842	–	37,842
Total equity*	39,059	(1,095)	(74)	37,890	–	37,890

[i] Fair value through other comprehensive income ("FVOCI")

***** The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

Impacts on the financial statements *(continued)*

(i) HKFRS 15 Revenue from Contracts with Customers

The Groups have adopted HKFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, the Groups have elected to apply the new standard retrospectively and have restated comparatives for the prior years presented.

The adoption of HKFRS 15 mainly affects the accounting treatment of the Groups' sale contracts with customers in which the Groups have multiple performance obligations to customers, such as provision of telecommunications services, sale of handsets, equipment and gifts offered in the contracts.

Before adoption of HKFRS 15, the Groups capitalized the subsidized costs of handsets and gifts as customer acquisition costs under intangible assets, with no revenue being allocated to them. These customer acquisition costs were amortized over the respective minimum enforceable contractual periods on a straight-line basis. Residual value method was used to determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

After the adoption of HKFRS 15, the total transaction price receivable from customers in multiple-element sale contracts is allocated among all identified performance obligations of the Groups in proportion to their respective stand-alone selling price.

Accordingly, although the total revenue being recognized for a multiple-element sale contract over the contract period is unchanged, the amount and timing of revenue recognition for individual performance obligations would be different after the adoption of HKFRS 15. The revenue being allocated to handsets, equipment and gifts is recognized upon the delivery to customers, which is generally upfront upon entering into the sale contracts. The revenue allocated to telecommunications and other services is recognized when services are rendered, which is generally over the contract period.

Moreover, subsidized costs of handsets and gifts are no longer capitalized and amortized, but are required to be recognized as cost of sales immediately when the corresponding revenue is recognized.

Nevertheless, other direct costs incurred to acquire contractual relationships with customers and other costs incurred in fulfilling the contracts with customers are required to be capitalized as customer acquisition costs and fulfillment costs under HKFRS 15 in the consolidated statement of financial position respectively.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2 above are restated, resulting in a decrease in retained profits attributable to holders of Share Stapled Units/shares of the Company as at December 31, 2016 and profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 of HK$736 million and HK$359 million respectively. The Groups' EBITDA as defined and disclosed in the segment information is also restated and decreased by HK$2,368 million for the year ended December 31, 2017.

For the Groups' consolidated statement of cash flows, certain items including cash outflow for certain contract related costs previously capitalized before HKFRS 15 adoption are required to be reclassified to operating activities from investing activities. Nevertheless, the Groups' total net cash flow and adjusted funds flow as defined in the Trust Deed are unaffected.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

Impacts on the financial statements *(continued)*

(ii) HKFRS 16 Leases

The Groups have early adopted HKFRS 16 *Leases* from January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in HKFRS 16, the Groups have elected to apply the new standard retrospectively and have restated comparatives for the prior years presented.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognized by the Groups as liabilities. Operating lease rental expenses were recognized in the consolidated income statement over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Groups recognized the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using effective interest method.

At the inception of a contract that contains a lease component, as lessees, the Groups should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Groups, as lessees, assessed their leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by any lease payments made at or before the commencement date, less any lease incentive received, any initial direct costs, and restoration costs, relating to that lease. The right-of-use assets were recognized in the consolidated statement of financial position. Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

In applying HKFRS 16 for the first time, the Groups have used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2 above are restated, resulting in a decrease in retained profits attributable to holders of Share Stapled Units/shares of the Company as at December 31, 2016 of HK$82 million and an increase in profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 of HK$7 million. The Groups' EBITDA as defined and disclosed in the segment information is also restated and increased by HK$1,656 million for the year ended December 31, 2017.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

Impacts on the financial statements *(continued)*

***(ii) HKFRS 16 Leases** (continued)*

Cash payments for the settlement of lease liabilities for the year ended December 31, 2017 of HK$1,661 million were required to be reclassified from operating activities to financing activities and cash received from lease receivables for the year ended December 31, 2017 of HK$31 million were required to be reclassified from operating activities to investing activities according to HKFRS 16 in the restated consolidated statement of cash flows. The Groups' total net cash flow and adjusted funds flow as defined in the Trust Deed are unaffected.

(iii) HKFRS 9 (2014) Financial Instruments

The Groups have adopted HKFRS 9 (2014) *Financial Instruments* from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions, the Groups have adopted HKFRS 9 (2014) retrospectively with the reclassification and adjustment arising from initially applying HKFRS 9 (2014) recognized on January 1, 2018, with no restatements on the comparatives.

HKFRS 9 (2014) replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

On January 1, 2018 (the date of initial application of HKFRS 9 (2014)), the Groups' management has assessed the Groups' business models of management, and the contractual cash flow characteristics, of each of the Groups' financial instruments, and has classified them into the appropriate categories under HKFRS 9 (2014).

Accordingly, an investment previously classified as available-for-sale financial assets ("AFS financial assets") with a carrying value of HK$77 million was reclassified to financial assets at FVOCI on January 1, 2018 as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. Such reclassification has no impact on the measurement categories.

On adoption of HKFRS 9 (2014), the Groups have applied the new hedge accounting model prospectively from January 1, 2018 except upon transition to HKFRS 9 (2014), the Groups have elected the option to separate foreign currency basis spread and exclude it from the designated hedging instrument retrospectively, resulting in a reclassification of reserves as of January 1, 2018. The Groups recognize changes in fair value of cross currency swap contracts attributable to the foreign currency basis in costs of hedging reserve within equity. This change has been applied retrospectively for cross currency swap contracts in the cash flow hedging relationships resulting in a reclassification of a credit balance of HK$44 million and a debit balance of HK$252 million from retained profits and hedging reserve, respectively, to the costs of hedging reserve as at January 1, 2018.

The Groups' financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 and lease receivables are subject to the new expected credit loss model for impairment assessment. The results of the adopted new impairment model as at January 1, 2018 have not resulted in material impact on the carrying amount of the Groups' financial assets.

3. SEGMENT INFORMATION

The chief operating decision-maker (the "CODM") is the Groups' senior executive management. The CODM reviews the Groups' internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

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

- Telecommunications Services ("TSS") is the leading provider of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

- Mobile includes the Groups' mobile telecommunications businesses in Hong Kong.

- Other businesses of the Groups ("Other Businesses") primarily comprises new business areas such as Tap & Go mobile payment service and The Club program, and corporate support functions.

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

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

3. SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2017
(In HK$ million)

	TSS (Restated)	Mobile (Restated)	Other Businesses (Restated)	Eliminations (Restated)	Consolidated (Restated)
REVENUE					
Total revenue	21,524	12,238	155	(850)	33,067
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,453	4,150	134	(101)	5,636
Over time	20,010	8,088	20	(749)	27,369
Revenue from other sources:					
Rental income	61	–	1	–	62
RESULTS					
EBITDA	8,060	4,816	(591)	–	12,285

For the year ended December 31, 2018
(In HK$ million)

	TSS	**Mobile**	**Other Businesses**	**Eliminations**	**Consolidated**
REVENUE					
Total revenue	**21,774**	**14,009**	**240**	**(836)**	**35,187**
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	**1,667**	**5,757**	**206**	**(208)**	**7,422**
Over time	**20,046**	**8,252**	**33**	**(628)**	**27,703**
Revenue from other sources:					
Rental income	**61**	**–**	**1**	**–**	**62**
RESULTS					
EBITDA	**8,204**	**4,959**	**(605)**	**–**	**12,558**

3. SEGMENT INFORMATION (CONTINUED)

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

In HK$ million	2017 (Restated)	**2018**
Total segment EBITDA	12,285	**12,558**
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	2	**1**
Depreciation and amortization	(5,329)	**(5,343)**
Other (losses)/gains, net	(145)	**2**
Finance costs, net	(1,148)	**(1,350)**
Share of results of associates	(12)	**–**
Share of results of joint ventures	2	**(16)**
Profit before income tax	5,655	**5,852**

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

In HK$ million	2017 (Restated)	**2018**
Hong Kong (place of domicile)	27,693	**29,740**
Mainland China, Macau and Taiwan, China	579	**510**
Others	4,795	**4,937**
	33,067	**35,187**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$82,869 million as at December 31, 2018 (2017 (restated): HK$80,343 million). The total of these non-current assets located in other countries are HK$2,896 million as at December 31, 2018 (2017 (restated): HK$2,909 million).

4. REVENUE

In HK$ million	2017 (Restated)	**2018**
Revenue from contracts with customers	33,005	**35,125**
Revenue from other sources: rental income	62	**62**
	33,067	**35,187**

a. Revenue recognition in relation to contract liabilities

In HK$ million	2017	**2018**
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,276	**1,288**

b. Unsatisfied long-term fixed-price contracts

In HK$ million	**2018**
Aggregated amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31, 2018*	**16,377**

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to partially or fully unsatisfied performance obligations as of December 31, 2017 is not presented.

Management expects that 63% and 23% of the transaction price allocated to the unsatisfied long-term fixed-price contracts as of December 31, 2018 will be recognized as revenue during the years ending December 31, 2019 and 2020 respectively. The remaining 14% will be recognized as revenue after the year ending December 31, 2020. The amount disclosed above does not include unsatisfied performance obligation that were related to the Groups' contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

5. OTHER (LOSSES)/GAINS, NET

In HK$ million	2017	**2018**
Net realized gain on disposal on an AFS financial asset	6	**–**
Provision for impairment on interests in associates	(154)	**–**
Others	3	**2**
	(145)	**2**

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK$ million	2017 (Restated)	**2018**
Cost of inventories sold	6,294	**7,960**
Cost of sales, excluding inventories sold	9,678	**10,020**
Depreciation of property, plant and equipment	1,381	**1,324**
Depreciation of right-of-use assets – land and buildings	1,322	**1,262**
Depreciation of right-of-use assets – network capacity and equipment	260	**289**
Amortization of land lease premium – interests in leasehold land	13	**13**
Amortization of intangible assets	1,163	**1,186**
Amortization of fulfillment costs	427	**417**
Amortization of customer acquisition costs	763	**852**

7. INCOME TAX

In HK$ million	2017 (Restated)	**2018**
Hong Kong profits tax	733	**596**
Overseas tax	38	**7**
Movement of deferred income tax	127	**407**
	898	**1,010**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Overseas tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

8. DISTRIBUTIONS/DIVIDENDS

In HK$ million	2017	**2018**
Interim distribution/dividend declared and paid in respect of current year of 29.12 HK cents (2017: 28.12 HK cents) per Share Stapled Unit/ordinary share of the Company	2,129	**2,205**
Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 36.75 HK cents (2017: 34.76 HK cents) per Share Stapled Unit/ordinary share of the Company	2,632	**2,783**
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units award schemes	(2)	–
	2,630	**2,783**
	4,759	**4,988**

For the year ended December 31, 2018, the Company proposed a final dividend of 39.17 HK cents per ordinary share, totaling HK$2,966 million (2017: 36.75 HK cents per ordinary share, totaling HK$2,783 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2018, HKT Trust proposed a final distribution of 39.17 HK cents per Share Stapled Unit, totaling HK$2,966 million (2017: 36.75 HK cents per Share Stapled Unit, totaling HK$2,783 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

9. EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2017 (Restated)	**2018**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	4,745	**4,825**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,571,742,334	**7,571,742,334**
Effect of Share Stapled Units held under the Company's Share Stapled Units award schemes	(2,233,258)	**(372,000)**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company	7,569,509,076	**7,571,370,334**
Effect of Share Stapled Units awarded under the Company's Share Stapled Units award schemes	2,832,205	**2,364,723**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Share Stapled Unit/share of the Company	7,572,341,281	**7,573,735,057**

10. TRADE RECEIVABLES, NET

The aging of trade receivables based on the date of invoice is set out below:

In HK$ million	2017	**2018**
1 – 30 days	2,008	**2,889**
31 – 60 days	207	**288**
61 – 90 days	170	**155**
91 – 120 days	99	**99**
Over 120 days	486	**431**
	2,970	**3,862**
Less: loss allowance	(183)	**(135)**
	2,787	**3,727**

Included in trade receivables, net are the amounts due from related parties of HK$47 million (2017: HK$36 million).

10. TRADE RECEIVABLES, NET (CONTINUED)

The Groups' normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted.

11. TRADE PAYABLES

The aging of trade payables based on the date of invoice is set out below:

In HK$ million	2017	**2018**
1 – 30 days	1,257	**1,205**
31 – 60 days	125	**121**
61 – 90 days	39	**53**
91 – 120 days	46	**22**
Over 120 days	407	**386**
	1,874	**1,787**

Included in trade payables are the amounts due to related parties of HK$32 million (2017: HK$50 million).

AUDITED INCOME STATEMENT OF
HKT MANAGEMENT LIMITED
For the year ended December 31, 2018

In HK$'000	2017	**2018**
Management fee income	54	**54**
General and administrative expenses	(54)	**(54)**
Result before income tax	–	**–**
Income tax	–	**–**
Result for the year	–	**–**

AUDITED STATEMENT OF COMPREHENSIVE INCOME OF
HKT MANAGEMENT LIMITED
For the year ended December 31, 2018

In HK$'000	2017	**2018**
Result for the year	–	**–**
Other comprehensive income	–	**–**
Total comprehensive income for the year	–	**–**

AUDITED STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED
As at December 31, 2018

In HK$'000	2017	**2018**
ASSETS AND LIABILITIES		
Current assets		
Amount due from a fellow subsidiary	276	**330**
	276	**330**
Current liabilities		
Accruals and other payables	(131)	**(51)**
Amounts due to fellow subsidiaries	(145)	**(279)**
	(276)	**(330)**
Net assets	–	**–**
CAPITAL AND RESERVES		
Share capital	–	**–**
Reserves	–	**–**
Total equity	–	**–**

As at the date of this announcement, the directors of the Trustee-Manager and the Company are as follows:

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

Non-Executive Directors:
Peter Anthony Allen; Chung Cho Yee, Mico; Li Fushen; Zhu Kebing and
Srinivas Bangalore Gangaiah (aka BG Srinivas)

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP; Sunil Varma; Aman Mehta and Frances Waikwun Wong

Forward-Looking Statements

This announcement may contain certain forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT relating to the business, industry and markets in which HKT operates.