

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2015



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Telecommunications (HKT) Limited (the "Company") and its subsidiaries set out on pages 2 to 75, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 08 APR 2016

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HONG KONG TELECOMMUNICATIONS (HKT) LIMITED**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015**

In HK\$ million	Note	2014	2015
Revenue	5	14,133	15,100
Cost of sales		(3,569)	(3,434)
General and administrative expenses		(8,209)	(7,316)
Other gains, net	6	77	115
Finance costs, net	8	(927)	(1,318)
Share of results of a joint venture		(11)	(5)
Profit before income tax	7	1,494	3,142
Income tax	10	(244)	(537)
Profit for the year		1,250	2,605

The notes on pages 9 to 75 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015**

In HK\$ million	2014	2015
Profit for the year	1,250	2,605
Other comprehensive loss		
Items that may be reclassified subsequently to consolidated income statement:		
Cash flow hedges:		
- effective portion of changes in fair value	(18)	(263)
- transfer from equity to consolidated income statement	(24)	(77)
Other comprehensive loss for the year	(42)	(340)
Total comprehensive income for the year	1,208	2,265

The notes on pages 9 to 75 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

In HK\$ million

	Share premium	Hedging reserve	2014 Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2014	7,457	114	28	(695)	7,185	14,089
Comprehensive income/(loss)						
Profit for the year	-	-	-	-	1,250	1,250
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(18)	-	-	-	(18)
- transfer from equity to consolidated income statement	-	(24)	-	-	-	(24)
Total other comprehensive loss	-	(42)	-	-	-	(42)
Total comprehensive income/(loss) for the year	-	(42)	-	-	1,250	1,208
Transaction with equity holders						
Transfer to share capital upon transition to no-par value regime on March 3, 2014 (note 23)	(7,457)	-	-	-	-	(7,457)
Contributions by and distributions to equity holders:						
Second interim dividend paid in respect of the previous year (note 11)	-	-	-	-	(1,553)	(1,553)
Interim dividend declared and paid in respect of the current year (note 11)	-	-	-	-	(1,590)	(1,590)
Total transaction with equity holders	(7,457)	-	-	-	(3,143)	(10,600)
At December 31, 2014	-	72	28	(695)	5,292	4,697

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

In HK\$ million

	Share premium	Hedging reserve	2015 Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2015	-	72	28	(695)	5,292	4,697
Comprehensive income/(loss)						
Profit for the year	-	-	-	-	2,605	2,605
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(263)	-	-	-	(263)
- transfer from equity to consolidated income statement	-	(77)	-	-	-	(77)
Total other comprehensive loss	-	(340)	-	-	-	(340)
Total comprehensive income/(loss) for the year	-	(340)	-	-	2,605	2,265
Transaction with equity holders						
Contributions by and distributions to equity holders:						
Final dividend paid in respect of the previous year (note 11)	-	-	-	-	(1,764)	(1,764)
Interim dividend declared and paid in respect of the current year (note 11)	-	-	-	-	(1,953)	(1,953)
Total transaction with equity holders	-	-	-	-	(3,717)	(3,717)
At December 31, 2015	-	(268)	28	(695)	4,180	3,245

The notes on pages 9 to 75 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015**

In HK\$ million	Note(s)	2014	2015
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	13,308	14,419
Interests in leasehold land	13	278	265
Goodwill	14	32,592	32,592
Intangible assets	15	4,924	4,544
Interest in a joint venture	16	462	464
Financial assets at fair value through profit or loss	17	5	21
Other non-current assets		26	26
		51,595	52,331
Current assets			
Prepayments, deposits and other current assets		3,289	3,590
Inventories	18	418	363
Trade receivables, net	19	1,976	1,437
Amounts due from a related company	4(a)	41	38
Amounts due from fellow subsidiaries	4(a)	11,201	9,834
Derivative financial instruments	22	49	-
Financial assets at fair value through profit or loss	17	21	30
Cash and cash equivalents	27(c)	1,819	2,601
		18,814	17,893
Current liabilities			
Short-term borrowings	20	3,877	3,879
Trade payables		1,091	1,145
Accruals and other payables		2,800	2,983
Carrier licence fee liabilities	26	433	452
Amounts due to fellow subsidiaries and an intermediate holding company	4(a) & 4(c)	11,292	11,799
Advances from customers		819	816
Current income tax liabilities		44	289
		20,356	21,363

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

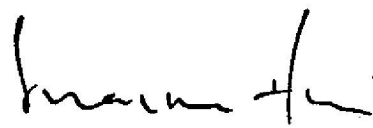
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT DECEMBER 31, 2015

In HK\$ million	Note(s)	2014	2015
Non-current liabilities			
Long-term borrowings	21	32,549	32,436
Derivative financial instruments	22	100	443
Deferred income tax liabilities	25	1,724	1,904
Deferred income		32	29
Carrier licence fee liabilities	26	954	627
Other long-term liabilities		52	232
		35,411	35,671
Net assets		14,642	13,190
CAPITAL AND RESERVES			
Share capital	23	9,945	9,945
Reserves		4,697	3,245
Total equity		14,642	13,190

Approved and authorized for issue by the board of directors (the "Board") on **08 APR 2016** and signed on behalf of the Board by



Alexander Anthony Arena
Director



Hui Hon Hing, Susanna
Director

The notes on pages 9 to 75 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

In HK\$ million	Note	2014	2015
NET CASH GENERATED FROM OPERATING ACTIVITIES	27(a)	5,387	9,100
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		5	5
Purchases of property, plant and equipment		(2,097)	(2,480)
Purchases of intangible assets		(1,383)	(1,693)
Net outflow of cash and cash equivalents in respect of acquisition of business	27(b)	(3,148)	-
Loans to a fellow subsidiary, net		(6,885)	-
Loan to a joint venture		(68)	(127)
NET CASH USED IN INVESTING ACTIVITIES		(13,576)	(4,295)
FINANCING ACTIVITIES			
New borrowings raised		17,427	18,045
Interest paid		(833)	(953)
Repayments of borrowings		(5,366)	(18,173)
Movement in balance due to fellow subsidiaries		878	776
Dividends paid	11	(3,143)	(3,717)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		8,963	(4,022)
NET INCREASE IN CASH AND CASH EQUIVALENTS		774	783
Exchange differences		1	(1)
CASH AND CASH EQUIVALENTS			
Beginning of year		1,044	1,819
End of year	27(c)	1,819	2,601

The notes on pages 9 to 75 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Telecommunications (HKT) Limited (the “Company”) is a limited liability company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”). The address of its registered office is 39th Floor, PCCW Tower, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong.

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

The principal activities of the Company and its subsidiaries (collectively the “Group”) are the provision of wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services in Hong Kong.

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

These consolidated financial statements have been approved for issue by the Board on 08 APR 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term for all individual Hong Kong Financial Reporting Standards, 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 new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2015, but have no material effect on the Group’s results and financial position for the current and prior accounting periods.

- HKAS 19 (2011) (Amendment), ‘Defined Benefit Plans: Employee Contributions’.
- Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA.
- Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA.

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 34.

The consolidated financial statements for the year ended December 31, 2015 has been prepared for refinancing purpose. The Company, as a holding company has applied section 379(3) of the Hong Kong Companies Ordinance to prepare company level financial statements as the Company’s statutory financial statements for the year ended December 31, 2015. Consequently, these consolidated financial statements and the comparatives do not constitute the Company’s statutory financial statements for either of the years ended December 31, 2014 or 2015. Information relating to the Company’s statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

As the Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company’s auditor has reported on the company level financial statements 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; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The consolidated financial statements for the year ended December 31, 2015 comprise the financial statements of the Company and its subsidiaries, and the Group's interests in a joint venture.

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(j)); and
- derivative financial instruments (see note 2(l)).

The preparation of financial statements in conformity with HKFRSs 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 HKFRSs 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

Subsidiaries are 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. 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. 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(h)). 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.

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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Subsidiaries (continued)

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. Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of January 1, 2012. A joint arrangement is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity. 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 whereby the Group has rights to the net assets of the joint arrangement.

Investment in joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost. The Group's investment in joint venture includes 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 venture's net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the joint venture 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 joint venture's 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 under 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 venture are eliminated to the extent of the Group's interest in the joint venture, 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 venture when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

e. Gaining or losing control

When the Group ceases to have control any retained interest in the entity is re-measured 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 a 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.

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)(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(g)); and
- other items of plant and equipment.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Property, plant and equipment (continued)

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.

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 13 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 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.

g. 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(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(t)(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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Goodwill

Goodwill represents the excess of the cost of a business combination or interest in a joint venture over the Group's interest in the aggregate 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(k)(ii)). In respect of the joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in a joint venture.

On disposal of a CGU or part of a CGU 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.

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

The difference between the discounted value and the total 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, intellectual property, market knowledge and trademarks are capitalized as "intangible assets" if it is identifiable and the entity has power or obtain future economic benefits flowing from the underlying resource.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Intangible assets (other than goodwill) (continued)

iii. Software (continued)

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

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

Trademarks	20 years
Customer base	1 to 10 years
Programme costs	Over the terms of the contract period

j. Investments in equity securities

The Group classifies its investments in equity securities, other than interests in subsidiaries and interest in a joint venture, as financial assets at fair value through profit or loss.

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. The investments are subsequently accounted for based on their classification as financial assets at fair value through profit or loss.

This category comprises financial assets designated as fair value through profit or loss at inception.

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 each the end of the reporting period, the fair value is re-measured 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 on the financial assets as these are recognized in accordance with the policies set out in note 2(t)(v). Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

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

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in a joint venture: see note 2(k)(ii)) and other current and non-current receivables that are stated at cost or amortized cost 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; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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

- 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.

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 reporting period 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;
- interest in a joint venture; and
- goodwill.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Impairment of assets (continued)

ii. Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated 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 cost to sell and value-in-use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

l. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured 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(m)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of 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 a current assets or liabilities.

m. 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Hedging (continued)

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.

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.

n. 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.

o. 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(k)(i)).

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

p. 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, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

q. 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.

r. 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.

s. 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 expenses.

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.

t. 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 the fixed line and mobile telecommunications network services, and equipment businesses mainly in Hong Kong.

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 applicable fixed 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.

ii. Sales of goods

Revenue from sale 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. Revenue is recorded after deduction of any trade discounts.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Revenue recognition (continued)

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the 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.

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.

u. 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 complete.

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.

v. 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Income tax (continued)

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

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

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

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

- iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

w. 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.

iii. Share-based payments

PCCW, the HKT Trust and HKT Limited 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 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 board of directors of PCCW and the boards of directors of HKT Management Limited (the trustee-manager of the HKT Trust) and HKT Limited may also grant shares of PCCW and Share Stapled Units (as the case may be), respectively, to employees of the participating subsidiaries of PCCW, HKT Limited and the HKT Trust at nil consideration under their share award schemes, under which the awarded shares or Share Stapled Units are either newly issued at par value (the "PCCW Subscription Scheme" and the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "PCCW Purchase Scheme" and the "HKT Share Stapled Units Purchase Scheme").

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Employee benefit (continued)

iii. Share-based payments (continued)

Awards under the PCCW Purchase Scheme, the HKT Share Stapled Units Purchase Scheme, the PCCW Subscription Scheme and the HKT Share Stapled Units Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares and Share Stapled Units represent the quoted market price of PCCW shares and Share Stapled Units 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 and 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 PCCW shares and 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 PCCW shares and Share Stapled Units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares and Share Stapled Units recognized in the financial assets at fair value through profit and loss is offset with the obligation.

Share Stapled Units granted to employees of the Group by the principal holder of Share Stapled Units are accounted for in accordance with the same policy for the awarded Share Stapled Units under the Share Stapled Units award schemes as described above. The fair value of the Share Stapled Units granted is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period.

Shares of PCCW granted to employees of the Group by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under the share award schemes of PCCW as described above. The fair value of the PCCW shares granted by the principal shareholder is measured by the quoted market price of the PCCW shares at grant date and is charged to the consolidated income statement over the respective vesting period, with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation under equity.

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.

x. 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 the Group's 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.

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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- ii. the Group and the party are subject to common control;
- iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;
- iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- 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 individuals; or
- 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.

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.

z. 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 as those available to other external parties for similar services. Inter-segment transactions are eliminated in full in preparing the Group's 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.

aa. Dividend distribution

Dividend distribution to the Company's sole shareholder is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Board or the Company's sole shareholder, where appropriate.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 14 and 29 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments respectively. Other key sources of estimation uncertainty are discussed below:

i. Recognition and fair value of identifiable intangible assets through business combination

The Group applies the acquisition method of accounting to account for acquisitions of business. In business combinations of multiple companies or businesses, HKFRS 3 (revised), “Business Combinations”, requires that one of the businesses that existed before the combination shall be identified as the accounting acquirer on the basis of the evidence available. Identification of the accounting acquirer requires significant judgement and it involves the considerations of the relative size of the combining businesses’ revenues and assets and the management structure to determine the appropriate accounting acquirer.

The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgement. The most significant variables in these valuations are discount rates, terminal values, the number of years on which the cash flow projections are based, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Upon an acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognized). The fair values of these intangible assets are dependent on estimates of attributable future revenue, margin, cash flow, useful lives and discount rate used.

ii. 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 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;
- interest in a joint venture; and
- goodwill.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. 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 cost to sell 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 this assessment, 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.

iii. 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.

The Group offers certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it 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.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

iv. 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 feasible 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.

v. 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 cases of disagreements with 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 disputes or judgments 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.

vi. 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 and/or makes impairment provisions according to the results of the review.

During the year ended December 31, 2014, the Group performed a review to reassess the useful lives of certain exchange equipment and transmission plant of the Group based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from July 1, 2014. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2014 decreased by HK\$770 million and the net assets as at December 31, 2014 decreased by HK\$770 million.

vii. Recognition of intangible asset - carrier licences

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities. To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Group. Had a different discount rate been used to determine the fair value, the Group's result of operations and financial position could be materially different.

viii. Classification of joint arrangements

The Group has made investments in joint arrangements in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts. Therefore these joint arrangements are classified as joint ventures of the Group.

HONG KONG TELECOMMUNICATIONS (HKT) 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	2014	2015
Telecommunications service fees and interest income received or receivable from a joint venture	54	50
Telecommunications service fees and finance charges paid or payable to a joint venture	113	120
Rental charges paid or payable to a related company	55	48
Telecommunications service fees, IT and logistics charges, management fee, interest income and other recharge costs received or receivable from fellow subsidiaries	1,904	2,689
Rental charges received or receivable from a fellow subsidiary	30	21
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	2,124	1,960
Rental and facilities management charges paid or payable to fellow subsidiaries	67	63
Interest paid or payable to an intermediate holding company	39	39

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.

a. Balances with a related company and fellow subsidiaries

The balances with a related company are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2014 and 2015.

The balances with fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2015, except for the loan receivables of Nil (2014: HK\$6,885 million), GBP17.50 million (2014: Nil) and GBP19.71 million (2014: GBP19.71 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.24% per annum, London Interbank Offered Rate ("GBP LIBOR") plus 2.5% per annum and GBP LIBOR plus 1% per annum respectively, and a loan payable of US\$8 million (2014: US\$8 million) which bears interest at LIBOR (2014: same), and repayable on demand.

b. Details of key management compensation

Key management compensation for the year ended December 31, 2015 was borne by fellow subsidiaries of the Company (2014: same).

c. Balances with an intermediate holding company

The balances with an intermediate holding company are unsecured, non-interest bearing and have no fixed repayment terms, except for a loan payable of HK\$7,437 million (2014: HK\$7,437 million) which bears interest at HIBOR plus 0.3% per annum (2014: HIBOR plus 0.3% per annum) and repayable within one year.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION

a. Revenue

In HK\$ million	2014	2015
Local data and broadband services	5,727	5,914
Local telephony services	3,452	3,466
CPE sales and services	1,662	1,669
International telecommunications services	692	621
Mobile services	2,278	3,013
Other services	322	417
	14,133	15,100

b. Segment information

The directors consider that the Group as a whole is an operating segment since the Group is only engaged in local and international telecommunications and related business. No geographical information has been disclosed as the majority of the Group's operating activities are carried out in Hong Kong. The Group's assets located and operating revenue derived from activities outside Hong Kong are less than 5% of the Group's assets and operating revenue, respectively.

6 OTHER GAINS, NET

In HK\$ million	2014	2015
Net gain on cash flow hedging instruments transferred from equity	22	67
Net gain on fair value hedging instruments	47	48
Others	8	-
	77	115

7 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK\$ million	2014	2015
Salaries, bonuses and other benefits	927	976
Share-based compensation expenses	38	32
Retirement costs for staff under defined contribution retirement schemes	124	137
	1,089	1,145

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROFIT BEFORE INCOME TAX (continued)

b. Other items

In HK\$ million	2014	2015
Charging/(crediting):		
Impairment loss for doubtful debts	68	59
Loss/(gain) on disposals of property, plant and equipment, net	2	(5)
(Write-back of provision)/provision for inventory obsolescence	(4)	2
Depreciation of property, plant and equipment	2,557	1,386
Amortization of land lease premium	13	13
Amortization of intangible assets	1,428	1,649
Cost of inventories sold	1,324	1,132
Cost of sales, excluding inventories sold	2,245	2,302
Exchange losses, net	25	43
Cash flow hedges: transferred from equity	(3)	(11)
Auditor's remuneration	6	9
Operating lease rental	946	1,044

8 FINANCE COSTS, NET

In HK\$ million	2014	2015
Interest expenses	(895)	(1,220)
Notional accretion on carrier licence fee liabilities	(110)	(114)
Other borrowing costs	(42)	(47)
Cash flow hedges: transferred from equity	(1)	(1)
Cash flow hedges: changes in fair value	-	(32)
Impact of re-designation of fair value hedges	-	(16)
Fair value hedges: changes in fair value (note (a))	(4)	-
	(1,052)	(1,430)
Interest capitalized in property, plant and equipment (note (b))	19	17
Total finance costs	(1,033)	(1,413)
Interest income	106	95
Finance costs, net	(927)	(1,318)

a. This represents fair value changes of derivative financial instruments on fair value hedges. During the year ended December 2015, there was no fair value change on derivative financial instruments on fair value hedges (2014: gain of HK\$305 million) and no fair value adjustment of borrowings attributable to interest rate risk (2014: debit of HK\$309 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.41% to 3.95% for the year ended December 31, 2015 (2014: 3.63% to 3.77%).

9 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended December 31, 2015 were borne by fellow subsidiaries of the Company (2014: same).

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INCOME TAX

a. Income tax expense in the consolidated income statement represents:

In HK\$ million	2014	2015
Hong Kong profits tax		
- provision for current year	(159)	(357)
Movement of deferred income tax (note 25(a))	(85)	(180)
	(244)	(537)

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year.

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

In HK\$ million	2014	2015
Profit before income tax	1,494	3,142
Notional tax on profit before income tax, calculated at applicable tax rate	246	518
Income not subject to tax	(7)	(2)
Expenses not deductible for tax purposes	1	25
Utilisation of previously unrecognised tax losses	-	(5)
Tax losses for which no deferred income tax asset was recognized	4	-
Net losses of a joint venture not deductible to tax	-	1
Income tax expense	244	537

11 DIVIDENDS

In HK\$ million	2014	2015
Interim dividend declared and paid in respect of the current year	1,590	1,953
Second/final interim dividend declared and paid during the year in respect of the previous financial year	1,553	1,764
Final dividend declared after the end of the reporting period	1,764	2,141

Dividends declared after the end of the reporting period have not been recognized as liabilities as at the end of the reporting period.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million

	2014					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,074	18,614	17,585	11,072	1,106	49,451
Additions	-	507	658	417	534	2,116
Additions through acquisition of business (note 33)	392	694	561	20	90	1,757
Transfers	-	344	374	174	(892)	-
Disposals	-	(401)	(21)	(58)	-	(480)
End of year	1,466	19,758	19,157	11,625	838	52,844
Accumulated depreciation and impairment						
Beginning of year	570	15,712	12,023	9,147	-	37,452
Charge for the year	26	1,164	936	431	-	2,557
Transfers	-	-	-	-	-	-
Disposals	-	(401)	(15)	(57)	-	(473)
End of year	596	16,475	12,944	9,521	-	39,536
Net book value						
End of year	870	3,283	6,213	2,104	838	13,308
Beginning of year	504	2,902	5,562	1,925	1,106	11,999

In HK\$ million

	2015					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,466	19,758	19,157	11,625	838	52,844
Additions	-	237	1,303	12	945	2,497
Transfers	-	171	477	3	(651)	-
Disposals	-	(410)	(249)	(22)	-	(681)
End of year	1,466	19,756	20,688	11,618	1,132	54,660
Accumulated depreciation and impairment						
Beginning of year	596	16,475	12,944	9,521	-	39,536
Charge for the year	35	472	476	403	-	1,386
Transfers	-	-	-	-	-	-
Disposals	-	(410)	(249)	(22)	-	(681)
End of year	631	16,537	13,171	9,902	-	40,241
Net book value						
End of year	835	3,219	7,517	1,716	1,132	14,419
Beginning of year	870	3,283	6,213	2,104	838	13,308

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

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INTERESTS IN LEASEHOLD LAND

In HK\$ million	2014	2015
Cost		
Beginning and end of year	536	536
Accumulated amortization		
Beginning of year	245	258
Charge for the year	13	13
End of year	258	271
Net book value		
End of year	278	265
Beginning of year	291	278

14 GOODWILL

In HK\$ million	2014	2015
Cost		
Beginning and end of year	32,592	32,592
Carrying amount		
Beginning and end of year	32,592	32,592

The recoverable amount of the CGU is determined based on value-in-use calculations. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2015 are as follows:

	Gross margin	2014 Terminal growth rate	Discount rate	Gross margin	2015 Terminal growth rate	Discount rate
Local telephony and data services	75%	1%	9%	77%	1%	8%

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

There was no indication of impairment arising from review on goodwill as at October 31, 2015.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS

In HK\$ million

	2014						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	459	1,600	1,026	5,040	595	13	8,733
Additions	-	108	508	-	226	161	1,003
Additions through acquisition of business (note 33)	-	2,332	-	-	-	-	2,332
Write-off	-	-	(428)	-	-	(161)	(589)
End of year	459	4,040	1,106	5,040	821	13	11,479
Accumulated amortization							
Beginning of year	119	838	561	4,130	55	13	5,716
Charge for the year	23	439	524	223	58	161	1,428
Write-off	-	-	(428)	-	-	(161)	(589)
End of year	142	1,277	657	4,353	113	13	6,555
Net book value							
End of year	317	2,763	449	687	708	-	4,924
Beginning of year	340	762	465	910	540	-	3,017

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS (continued)

In HK\$ million

	2015						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	459	4,040	1,106	5,040	821	13	11,479
Additions	-	117	738	-	242	172	1,269
Write-off	-	-	(502)	-	-	(171)	(673)
End of year	459	4,157	1,342	5,040	1,063	14	12,075
Accumulated amortization							
Beginning of year	142	1,277	657	4,353	113	13	6,555
Charge for the year	23	550	571	223	110	172	1,649
Write-off	-	-	(502)	-	-	(171)	(673)
End of year	165	1,827	726	4,576	223	14	7,531
Net book value							
End of year	294	2,330	616	464	840	-	4,544
Beginning of year	317	2,763	449	687	708	-	4,924

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

16 INTEREST IN A JOINT VENTURE

In HK\$ million

	2014	2015
Share of net assets of a joint venture	-	-
Loan due from a joint venture	462	464
	462	464
Investment at cost, unlisted	-	-

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2014: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2015, particulars of the joint venture 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

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INTEREST IN A JOINT VENTURE (continued)

a. As at December 31, 2015, particulars of the joint venture are as follows: (continued)

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

The 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 the joint venture

As at December 31, 2015, the Group's share of its joint venture's commitments were as follows:

In HK\$ million	2014	2015
Commitment to provide funding	84	66

There were no contingent liabilities relating to the Group's interest in the joint venture. The Group had no share of contingent liabilities relating to the joint venture as at December 31, 2014 and 2015.

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

Set out below is the summarized unaudited financial information for the joint venture and is accounted for using the equity method:

In HK\$ million	2014	2015
Non-current assets	1,063	1,029
Current assets		
Cash and cash equivalents	43	9
Other current assets (excluding cash and cash equivalents)	20	21
Total current assets	63	30
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(261)	(244)
Other current liabilities (including trade payables, accrual and other payables)	(54)	(28)
Total current liabilities	(315)	(272)
Non-current liabilities		
Financial liabilities (excluding trade payables)	(842)	(827)
Total non-current liabilities	(842)	(827)
Net liabilities	(31)	(40)
Equity attributable to equity holders	(31)	(40)
In HK\$ million	2014	2015
Revenue	227	241
Depreciation and amortization	(91)	(92)
Interest expense	(38)	(35)
Profit before income tax	1	2
Income tax	(23)	(11)
Loss after income tax and total comprehensive loss	(22)	(9)

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INTEREST IN A JOINT VENTURE (continued)

c. Summarized unaudited financial information of the Group's joint venture (continued)

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

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in a joint venture.

In HK\$ million	2014	2015
Net liabilities		
Beginning of year	(9)	(31)
Loss for the year	(22)	(9)
End of year	(31)	(40)
Interest in joint venture	50%	50%
Interest in joint venture	(16)	(20)
Loan due from a joint venture	478	484
Carrying value	462	464

During the year ended December 31, 2015, the Group did not have any unrecognized share of losses of joint venture (2014: nil). As at December 31, 2015, there was no accumulated share of losses of the joint venture unrecognized by the Group (2014: nil).

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK\$ million	2014	2015
Listed securities	26	51
Less: Securities held for employee share award to be vested within one year classified as current assets	(21)	(30)
Non-current portion	5	21

Financial assets at fair value through profit or loss represent shares of PCCW and Share Stapled Units acquired under the PCCW Purchase Scheme and the HKT Share Stapled Units Purchase Scheme, respectively. Please refer to notes 24(b)(iv) and 24(b)(iii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT Limited and the HKT Trust, respectively.

18 INVENTORIES

In HK\$ million	2014	2015
Work-in-progress	223	233
Finished goods	144	85
Consumable inventories	51	45
	418	363

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19 TRADE RECEIVABLES, NET

In HK\$ million	2014	2015
Trade receivables	2,028	1,467
Less: Impairment loss on doubtful debts (note (i))	(52)	(30)
Trade receivables, net	1,976	1,437

(i) Impairment loss on 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	2014	2015
Beginning of year	21	52
Impairment loss recognized (note 7(b))	68	59
Uncollectable amounts write off	(37)	(81)
End of year	52	30

As at December 31, 2015, trade receivables of HK\$2 million (2014: HK\$52 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK\$2 million (2014: Nil) was recognized. The Group does not hold any collateral over these balances.

(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	2014	2015
Neither past due nor impaired	902	692
1-30 days past due	264	330
31-60 days past due	98	133
61-90 days past due	79	82
Over 90 days past due	633	200
Past due but not considered impaired	1,074	745
	1,976	1,437

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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 SHORT-TERM BORROWINGS

In HK\$ million	2014	2015
US\$500 million 5.25% guaranteed notes due 2015 (note (i))	3,877	-
US\$500 million 4.25% guaranteed notes due 2016 (note (ii))	-	3,879
Secured	-	-
Unsecured	3,877	3,879

i. US\$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, a direct wholly-owned subsidiary of the Company, issued US\$500 million 5.25% guaranteed notes due 2015, which were listed on the Singapore Exchange Securities Trading Limited. The notes were irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKT Group Holdings Limited ("HKTGH") and the Company. The notes ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and the Company.

The notes were fully redeemed in July 2015 and were delisted from the Singapore Exchange Securities Trading Limited.

ii. US\$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, a direct wholly-owned subsidiary of the Company, issued US\$500 million 4.25% guaranteed notes due 2016, which were listed on the Singapore Exchange Securities Trading Limited. The notes were irrevocably and unconditionally guaranteed by HKTGH and the Company and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

The notes were fully redeemed in February 2016 and were delisted from the Singapore Exchange Securities Trading Limited.

21 LONG-TERM BORROWINGS

In HK\$ million	2014	2015
Repayable within a period		
- over one year, but not exceeding two years	11,798	3,544
- over two years, but not exceeding five years	17,057	17,386
- over five years	3,694	11,506
	32,549	32,436
Representing:		
US\$500 million 4.25% guaranteed notes due 2016 (note (a))	3,924	-
US\$500 million 3.75% guaranteed notes due 2023 (note (b))	3,694	3,711
US\$300 million zero coupon guaranteed notes due 2030 (note (c))	-	2,308
US\$500 million 3.625% guaranteed notes due 2025 (note (d))	-	3,821
Euro200 million 1.65% guaranteed notes due 2027 (note (e))	-	1,666
Bank borrowings	24,931	20,930
	32,549	32,436
Secured	-	-
Unsecured	32,549	32,436

a. US\$500 million 4.25% guaranteed notes due 2016

The notes were classified as short-term borrowings as at December 31, 2015. Please refer to note 20(ii) for more details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 LONG-TERM BORROWINGS (Continued)

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

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

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

On January 15, 2015, HKT Capital No. 1 Limited, a direct wholly-owned subsidiary of the Company, issued US\$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange (previously known as the GreTai Securities Market) in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

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

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

e. Euro200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, a direct wholly-owned subsidiary of the Company, issued Euro200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

Please refer to note 32 for details of the Group's bank loan facilities.

22 DERIVATIVE FINANCIAL INSTRUMENTS

In HK\$ million	2014	2015
Current assets		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	49	-
Non-current liabilities		
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	100	-
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note(a)&(b))	-	443

As at December 31, 2015, the Group had outstanding cross currency swap contracts with notional contract amounts of US\$1,000 million (approximately HK\$7,756 million) (2014: US\$1,000 million (approximately HK\$7,769 million)) and Euro 200 million (approximately HK\$1,665 million) (2014: nil), at various rates, to manage the Group's exposure to foreign currency and interest rate risk. The Group had a 5 years foreign exchange forward contract with amounts of US\$376 million (approximately HK\$2,905 million) to manage the Group's exposure to foreign currency fluctuations.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

- a. The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2015 with notional contract amounts of US\$500 million (approximately HK\$3,877 million) (2014: US\$500 million (approximately HK\$3,890 million)) were designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of these swaps match with the maturity of the underlying borrowings and the Group has fixed the USD/HKD exchange rate at 7.7545-7.7550 (2014: 7.7790) for the notional amounts (see note 29(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts will be continuously released to the consolidated income statement until the repayment of the borrowings.

During the year, the Group entered into a 5 years foreign exchange forward contract with notional contract amounts of US\$376 million (approximately HK\$2,905 million) (2014: nil). 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 (2014: nil) for the notional amounts (see note 29(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 (2014: nil) for the year ended December 31, 2015.

During the year, the Group entered into a fixed-to-fixed cross currency swap contract with notional contract amounts of Euro200 million (approximately HK\$1,665 million) (2014: nil). The contract was 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 has fixed the Euro/HKD exchange rate at 8.3245 (2014: nil) for the notional amounts (see note 29(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\$17 million (2014: nil) for the year ended December 31, 2015.

- b. During 2014, the Group entered into fixed-to-floating cross currency swap contracts with notional contract amounts of US\$500 million (approximately HK\$3,879 million). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and fixed the USD/HKD exchange rate at 7.7570 for the notional amounts (see note 29(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (see note 29(c)(ii)). During the year, the Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK\$3,879 million. Accordingly, the Group had a synthetic fixed-to-fixed cross currency swap contract position and re-designated this as a cash flow hedge.

These swap and forward contracts were designated as either (i) cash flow hedges of the foreign currency risk in the Group's foreign currency denominated borrowings or (ii) fair value hedges of the interest rate risk in the Group's borrowings at fixed 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.

In 2014, those fixed-to-floating swap contracts designated as fair value hedges offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated statement of financial position and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs, net" in the consolidated income statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to nil (2014: a loss of HK\$4 million) for the year ended December 31, 2015 (see note 8).

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 SHARE CAPITAL

	As at December 31,			
	2014		2015	
	Number of	Share capital	Number of	Share capital
	shares	HK\$ million	shares	HK\$ million
Ordinary shares, issued and fully paid:				
As at January 1,	2,488,200,001	2,488	2,488,200,001	9,945
Transfer from share premium account upon transition to no-par value regime on March 3, 2014 (note a)	-	7,457	-	-
As at December 31,	2,488,200,001	9,945	2,488,200,001	9,945

- a. In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on March 3, 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

24 EMPLOYEE BENEFITS

a. Defined contribution retirement schemes

The Group participates in 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 operated by HKT Services Limited, a fellow subsidiary of the Company, and 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 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 Schemes 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 Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

- (i) The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCCW and to encourage eligible participants to work towards enhancing the value of PCCW and its Shares 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 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

i. Share Option Schemes of PCCW (continued)

- (iii) The maximum number of Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of PCCW must not exceed 30% of the shares in issue from time to time. As at December 31, 2015, the total number of Shares available for issue in respect of which options may be granted under the 2014 Scheme is 728,229,465, representing approximately 9.56% of the Shares in issue as at that date.
- (iv) The total number of 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 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 Shares in issue and HK\$5 million in aggregate value based on the closing price of the Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.
- (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 shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange.
- (viii) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCCW Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2015.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

ii. 2011-2021 Share Stapled Units Option Scheme of the HKT Trust and HKT Limited

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

- (1) The purpose of the HKT 2011-2021 Option Scheme is to enable the HKT Trust and HKT Limited, 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 Limited and its subsidiaries and to provide the HKT Trust and HKT Limited and its subsidiaries 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 Limited and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of HKT Limited 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 Limited and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the HKT 2011-2021 Option Scheme.
- (3)
 - (i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the options may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).
 - (ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.
 - (iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 2011-2021 Option Scheme if this will result in such limit being exceeded.

As at December 31, 2015, the total number of Share Stapled Units available for issue in respect of which options may be granted under the HKT 2011-2021 Option Scheme is 641,673,079, representing approximately 8.47% of the Share Stapled Units in issue as at that date.

- (4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of HKT Limited, or any of their respective associates) under the HKT 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the HKT 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of HKT Limited, 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

ii. 2011-2021 Share Stapled Units Option Scheme of the HKT Trust and HKT Limited (continued)

- (5) The HKT 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the HKT 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the HKT Board, provided that such terms and conditions shall not be inconsistent with the HKT 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.
- (6) Upon acceptance of the offer, the grantee shall pay HK\$1.00 to HKT Limited by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price for grants requiring approval of holders of Share Stapled Units in accordance with the provisions of the HKT 2011-2021 Option Scheme.
- (7) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (i) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.
- (8) Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the HKT Board and the Trustee-Manager Board, the HKT 2011-2021 Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date, after which period no further options shall be offered or granted but the provisions of the HKT 2011-2021 Option Scheme shall remain in full force and effect in all other respects.

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since its adoption and up to and including December 31, 2015.

iii. Share Stapled Units Award Schemes of HKT Limited

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

Eligible participants of the HKT Share Stapled Units Purchase Scheme include (a) any full time or part time employees of HKT Limited and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of HKT Limited and/or any of its subsidiaries. Eligible participants of the HKT Share Stapled Units Subscription Scheme are the same as the HKT Share Stapled Units Purchase Scheme except that the directors of HKT Limited or its subsidiaries and/or any other connected persons of HKT Limited are not eligible participants.

The HKT Share Stapled Units Award Schemes are administered by the relevant committee of the HKT Board 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iii. Share Stapled Units Award Schemes of HKT Limited (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 eligible 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 HKT 2011-2021 Option Scheme, and all other rights or entitlements granted by HKT Limited 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 Limited does not have a relevant general mandate or specific mandate from holders of Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

In respect of the HKT Share Stapled Units Purchase Scheme, the relevant committee of the HKT Board may either (i) set aside a sum of money; or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the HKT Board must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units, as the case may be, to the Trustee (or as it shall direct) from the HKT Limited Group's resources, and the Trustee will then apply the same towards the purchase of the relevant Share Stapled Units on the Stock Exchange pursuant to the trust deed.

In respect of the HKT Share Stapled Units Subscription Scheme, the HKT Board will determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The HKT Board must then pay (or cause to be paid) an amount sufficient to subscribe that number of Share Stapled Units at the Specified Price (as defined below) from the HKT Limited Group's resources, and the Trustee shall then apply the same towards the subscription of the awarded Share Stapled Units at the Specified Price, provided always that no Share Stapled Units shall be allotted in respect of such subscription unless and until HKT Limited shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Share Stapled Units. For these purposes, the "Specified Price" means the price determined by HKT Limited in conjunction with the Trustee-Manager as being the higher of:

- (i) the closing price of the Share Stapled Units on the Stock Exchange on the trading day immediately preceding the relevant award date; and
- (ii) the average of the closing prices of the Share Stapled Units on the Stock Exchange in the 10 trading days immediately prior to the earlier of (a) the date of announcement (if applicable) of the proposed allotment of the relevant Share Stapled Units pursuant to an award under the scheme; (b) the relevant award date; and (c) the date on which the allotment price for the relevant Share Stapled Units is otherwise fixed.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

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

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

As at December 31, 2015, an aggregate of 3,929,132 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.05% of the total number of Share Stapled Units in issue as at that date. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2015.

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

Awards may be made by the HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2014 and 2015.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

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

	Number of Share Stapled Units	
	2014	2015
Beginning of year	1,412,574	1,256,453
Purchase from the market by the Trustee at the weighted average market price of HK\$9.92 (2014: nil) per Share Stapled Unit	-	5,288,205
Addition/(reduction) due to the transfer of employees from/to a fellow subsidiary	918,639	(135,757)
Share Stapled Units vested	(1,074,760)	(2,479,769)
End of year	1,256,453	3,929,132

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

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

	2014		2015	
	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	7.10	1,412,574	8.86	5,886,215
Awarded (note (3))	8.98	5,764,396	10.30	887,566
Forfeited (note (4))	8.89	(174,721)	9.21	(260,490)
Vested (note (5))	7.18	(1,074,760)	8.67	(2,479,769)
Transfer of employees to a fellow subsidiary (note (6))	8.96	(41,274)	9.14	(104,390)
End of year (note (2))	8.86	5,886,215	9.28	3,929,132

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

(2) Terms of unvested Share Stapled Units held by the Group 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	
			2014	2015
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	476,478	-
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	476,729	-
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	476,507	468,229
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	1,593,099	-
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	1,431,977	1,301,974
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	1,431,425	1,301,527
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	-	1,215
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	-	427,840
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	427,132
			5,886,215	3,929,132

The unvested Share Stapled Units held by the Group at December 31, 2015 had a weighted average remaining vesting period of 0.72 year (2014: 0.97 year).

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

(3) Details of Share Stapled Units awarded to eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2014	2015
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	484,758	-
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	484,528	-
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	161,122	-
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	1,652,272	-
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	1,491,150	-
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	1,490,566	-
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	-	2,074
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	-	2,070
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	-	2,070
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	-	441,042
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	440,310
			5,764,396	887,566

(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	
			2014	2015
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,769	-
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	18,725	1,250
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	6,289	1,727
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	6,283	6,645
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	47,226	44,837
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	47,226	90,683
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	47,203	90,622
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	-	855
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	-	855
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	-	11,519
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	11,497
			174,721	260,490

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

(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	
			2014	2015
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	429,302	-
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	484,336	-
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	474,705
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	-	474,400
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	161,122	-
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	-	1,528,590
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	-	2,074
			1,074,760	2,479,769

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

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

(6) Details of unvested Share Stapled Units of employees transferred to a fellow subsidiary during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2014	2015
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	493	-
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	528	-
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	943	523
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	1,740	602
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	1,738	1,633
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	11,947	19,672
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	11,947	39,320
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	11,938	39,276
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	-	1,683
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	1,681
			41,274	104,390

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

During the year, share-based compensation expenses of HK\$25 million (2014: HK\$29 million) is recognized for HKT Share Stapled Units Award Schemes in the consolidated income statement and a corresponding HK\$25 million (2014: HK\$29 million) is recognized as an obligation in liabilities.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW

PCCW adopted two employee 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.

Eligible participants of the PCCW Purchase Scheme include directors and employees of PCCW and its participating subsidiaries. Eligible participants of the PCCW Subscription Scheme include employees of PCCW and its participating subsidiaries, excluding any director of PCCW and its subsidiaries.

The PCCW Share Award Schemes are administered by the relevant committee of the PCCW Board and an independent trustee (the “Trustee”) appointed to hold the relevant Shares/Share Stapled Units until such time as the Shares/Share Stapled Units vest in the selected participants.

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

In respect of the PCCW Purchase Scheme, the relevant committee of the PCCW Board may either (i) set aside a sum of money; or (ii) determine a number of Shares/Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the PCCW Board must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Shares/Share Stapled Units, as the case may be, to the Trustee (or as it shall direct) from the PCCW Group’s resources and the Trustee will then apply the same towards the purchase of the relevant Shares/Share Stapled Units on the Stock Exchange pursuant to the trust deed.

In respect of the PCCW Subscription Scheme, the relevant committee of the PCCW Board may either determine (i) a number of Shares/Share Stapled Units; or (ii) a notional cash amount which it wishes to be the subject of a bonus award. If the latter, a number of Shares/Share Stapled Units referable to that notional cash amount will be calculated based on the market price of the Shares/Share Stapled Units on the date of award, and that number of Shares/Share Stapled Units will form the basis of the award. The relevant committee of the PCCW Board must then pay (or cause to be paid) an amount sufficient to subscribe for that number of Shares/Share Stapled Units from PCCW’s resources and the Trustee shall then apply the same towards the subscription of Shares/Share Stapled Units at a price to be determined by the relevant committee of the PCCW Board pursuant to the trust deed. No Shares/Share Stapled Units shall be allotted unless and until PCCW and/or HKT (as the case may be) shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Shares/Share Stapled Units and unless and until such allotment have been approved by the PCCW Board and/or the board of directors of HKT (the “HKT Board”) (as the case may be), and the shareholders of PCCW and/or the holders of the Share Stapled Units (where required).

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant Shares/Share Stapled Units are held in trust for that employee and then shall vest over a period of time determined by the relevant committee of the PCCW Board provided that the employee remains an employee at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the PCCW Board shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, eligible participants are not required to provide any consideration in order to acquire the Shares/Share Stapled Units awarded to him/her under the schemes.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

The PCCW Purchase Scheme and the PCCW Subscription Scheme expired on November 15, 2012. However the 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 Shares, in the future. The relevant committee of the PCCW Board may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

A summary of movements in PCCW shares held by the Group under the PCCW Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Number of PCCW shares	
	2014	2015
Beginning of year	2,084,414	2,608,809
Purchase from the market by the Trustee at the weighted average market price of HK\$4.99 (2014: nil) per PCCW share	-	428,022
(Reduction)/addition due to the transfer of employees from/to a fellow subsidiary	(75,933)	1,440,230
PCCW shares obtained under the PCCW Subscription Scheme	2,035,213	-
PCCW shares vested	(1,433,950)	(1,726,717)
Transfer of shares under Scrip Dividend Scheme	(935)	-
End of year	2,608,809	2,750,344

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

Details of PCCW shares awarded to eligible employee of the Group pursuant to the PCCW share award schemes during the year and the unvested PCCW shares held by the Group, are as follows:

- (1) Movements in the number of unvested PCCW shares held by the Group and their related weighted average fair value on date of award

	2014		2015	
	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	2.88	2,084,414	3.73	881,429
Awarded (note (3))	3.99	258,791	5.35	186,562
Forfeited (note (4))	3.62	(25,974)	3.62	(1,473)
Vested (note (5))	3.16	(1,433,950)	3.68	(750,563)
Transfer of employees to a fellow subsidiary (note (6))	2.61	(1,852)	-	-
End of year (note (2))	3.73	881,429	4.79	315,955
The PCCW Subscription Scheme:				
Beginning of year	-	-	3.99	1,970,313
Awarded (note (3))	3.99	2,035,213	5.35	1,543,701
Forfeited (note (4))	3.99	(56,213)	4.66	(91,968)
Vested (note (5))	-	-	3.99	(976,154)
Transfer of employees to a fellow subsidiary (note (6))	3.99	(8,687)	4.77	(11,503)
End of year (note (2))	3.99	1,970,313	4.82	2,434,389
Total	3.91	2,851,742	4.82	2,750,344

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(2) Terms of unvested PCCW shares held by the Group at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2014	2015
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	622,638	-
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	129,398	-
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	129,393	129,393
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	93,282
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	93,280
			881,429	315,955
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	985,368	-
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	984,945	942,466
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	746,305
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	745,618
			1,970,313	2,434,389
Total			2,851,742	2,750,344

The PCCW shares unvested held by the Group at December 31, 2015 had a weighted average remaining vesting period of 0.63 year (2014: 1.61 years).

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(3) Details of PCCW shares awarded to eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2014	2015
The PCCW Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	129,398	-
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	129,393	-
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	93,282
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	93,280
			258,791	186,562
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	1,017,829	-
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,017,384	-
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	772,217
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	771,484
			2,035,213	1,543,701
Total			2,294,004	1,730,263

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(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	
			2014	2015
The PCCW Purchases Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	500	-
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	25,474	1,473
			25,974	1,473
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	28,116	8,495
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	28,097	38,297
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	22,609
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	22,567
			56,213	91,968
Total			82,187	93,441

(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	
			2014	2015
The PCCW Purchases Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	807,650	-
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	626,300	-
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	621,165
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	-	129,398
			1,433,950	750,563
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	-	976,154
			-	976,154
Total			1,433,950	1,726,717

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(6) Details of unvested PCCW shares of employees transferred to a fellow subsidiary during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2014	2015
The PCCW Purchases Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	2,277	-
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	500	-
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	(925)	-
			1,852	-
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	4,345	719
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	4,342	4,182
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	3,303
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	3,299
			8,687	11,503
Total			10,539	11,503

The fair value of the PCCW shares awarded to eligible employees of the Group during the year at the measurement dates is measured by the quoted market price of the PCCW shares at the respective award dates.

During the year, share-based compensation expenses of HK\$7 million (2014: HK\$10 million) is recognized in the consolidated income statement and HK\$7 million (2014: HK\$10 million) is recognized as an obligation in liabilities.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX

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

In HK\$ million	Accelerated tax depreciation and amortization	2014	
		Others	Total
Beginning of year	1,639	-	1,639
Charged/(credited) to consolidated income statement (note 10(a))	91	(6)	85
End of year	1,730	(6)	1,724

In HK\$ million	Accelerated tax depreciation and amortization	2015	
		Others	Total
Beginning of year	1,730	(6)	1,724
Charged to consolidated income statement (note 10(a))	174	6	180
End of year	1,904	-	1,904

In HK\$ million	2014	2015
Deferred income tax assets:		
- to be recovered after more than 12 months	-	-
- to be recovered within 12 months	(6)	-
Deferred income tax assets recognized in the consolidated statement of financial position	(6)	-
Deferred income tax liabilities:		
- to be recovered after more than 12 months	1,626	1,731
- to be recovered within 12 months	104	173
Deferred income tax liabilities recognized in the consolidated statement of financial position	1,730	1,904
Deferred income tax liabilities (net)	1,724	1,904

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX (continued)

- b. As at December 31, 2015, no deferred income tax assets (2014: nil) have been recognized for tax losses carry forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable, by considering the future taxable income. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$223 million (2014: HK\$231 million) to carry forward for deduction against future taxable income and carried forward indefinitely.

26 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2015, the Group had carrier licence fee liabilities repayable as follows:

In HK\$ million

	Present value of the minimum annual fees	2014 Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	2015 Interest expense relating to future periods	Total minimum annual fees
Repayable within a period						
- not exceeding one year	433	30	463	452	30	482
- over one year, but not exceeding two years	375	69	444	123	19	142
- over two years, but not exceeding five years	307	117	424	312	112	424
- over five years	272	171	443	192	100	292
	1,387	387	1,774	1,079	261	1,340
Less: Amounts repayable within one year included under current liabilities	(433)	(30)	(463)	(452)	(30)	(482)
	954	357	1,311	627	231	858

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 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	2014	2015
Profit before income tax	1,494	3,142
Adjustments for:		
Interest income	(106)	(95)
Finance costs	1,028	1,364
Cash flow hedges: transferred from equity	1	1
Cash flow hedges: changes in fair value	-	32
Fair value hedges: changes in fair value	4	-
Impact of re-designation of fair value hedges	-	16
Net gain on cash flow hedging instruments transferred from equity	(22)	(67)
Net gain on fair value hedging instruments	(47)	(48)
Depreciation of property, plant and equipment	2,557	1,386
Loss/(gain) on disposals of property, plant and equipment	2	(5)
Impairment loss for doubtful debts	68	59
(Write-back of provision)/provision for inventory obsolescence	(4)	2
Amortization of intangible assets	1,428	1,649
Amortization of land lease premium	13	13
Share of result of a joint venture	11	5
Share-based payment	39	32
Increase in financial assets at fair value through profit or loss for equity compensation scheme	(8)	(57)
Decrease/(increase) in operating assets		
- inventories	336	53
- trade receivables, prepayments, deposits and other current assets	(1,096)	1,270
- other non-current assets	3	-
(Decrease)/increase in operating liabilities		
- trade payables, accruals and other payables	(132)	337
- other long term liabilities	7	31
- advances from customers	(44)	(3)
- amount due from a related company	15	55
- deferred income	(6)	(3)
Cash generated from operations	5,541	9,169
Interest received	73	43
Income tax paid	(227)	(112)
Net cash generated from operating activities	5,387	9,100

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

b. Additions through acquisition of network business

In HK\$ million	2014	2015
Purchase consideration	3,148	-
Net assets acquired:		
Property, plant and equipment	1,757	-
Intangible assets	2,332	-
Trade payables, accruals, other payables and carrier licence fee liabilities (current and non-current)	(941)	-
	3,148	-
Analysis of net outflow of cash and cash equivalents in respect of additions through acquisition of network business:		
Purchase consideration	3,148	-
Net outflow	3,148	-

c. Analysis of cash and cash equivalents

In HK\$ million	2014	2015
Cash and bank balances	1,819	2,601
Cash and cash equivalents as at December 31,	1,819	2,601

28 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity, other than the hedging reserve and merger reserve.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK\$ million	2014			Total
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	
Non-current assets				
Financial assets at fair value through profit or loss	-	5	-	5
Other non-current assets	25	-	-	25
	25	5	-	30
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	3,052	-	-	3,052
Trade receivables, net	1,976	-	-	1,976
Derivative financial instruments	-	-	49	49
Financial assets at fair value through profit or loss	-	21	-	21
Amounts due from related companies	41	-	-	41
Amounts due from fellow subsidiaries	11,201	-	-	11,201
Cash and cash equivalents	1,819	-	-	1,819
	18,089	21	49	18,159
Total	18,114	26	49	18,189
In HK\$ million			2014	
	Derivative used for hedging	Other financial liabilities at amortized cost		Total
Current liabilities				
Short-term borrowings	-	3,877		3,877
Trade payables	-	1,091		1,091
Accruals and other payables	-	2,800		2,800
Carrier licence fee liabilities	-	433		433
Amounts due to fellow subsidiaries and an intermediate holding company	-	11,292		11,292
	-	19,493		19,493
Non-current liabilities				
Long-term borrowings	-	32,549		32,549
Derivative financial instruments	100	-		100
Carrier licence fee liabilities	-	954		954
Other long-term liabilities	-	52		52
	100	33,555		33,655
Total	100	53,048		53,148

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

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

In HK\$ million	2015		
	Loans and receivables	Assets at fair value through profit or loss	Total
Non-current assets			
Financial assets at fair value through profit or loss	-	21	21
Other non-current assets	25	-	25
	25	21	46
Current assets			
Prepayments, deposits and other current assets (excluding prepayments)	3,372	-	3,372
Trade receivables, net	1,437	-	1,437
Financial assets at fair value through profit or loss	-	30	30
Amounts due from related companies	38	-	38
Amounts due from fellow subsidiaries	9,834	-	9,834
Cash and cash equivalents	2,601	-	2,601
	17,282	30	17,312
Total	17,307	51	17,358
In HK\$ million	2015		
	Derivative used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	-	3,879	3,879
Trade payables	-	1,145	1,145
Accruals and other payables	-	2,983	2,983
Carrier licence fee liabilities	-	452	452
Amounts due to fellow subsidiaries and an intermediate holding company	-	11,799	11,799
	-	20,258	20,258
Non-current liabilities			
Long-term borrowings	-	32,436	32,436
Derivative financial instruments	443	-	443
Carrier licence fee liabilities	-	627	627
Other long-term liabilities	-	232	232
	443	33,295	33,738
Total	443	53,553	53,996

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

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 and other receivables, amounts due from related companies and fellow subsidiaries, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposures 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, 2014 and 2015, 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 19.

Amounts due from a related company 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, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2014 and 2015, the amounts due from a related company and other receivables are fully performing.

Investments, derivative financial instruments, interests 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 31, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of business. Please refer to note 31 for details.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

b. Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the reporting periods of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting periods) and the earliest date the Group can be required to pay:

In HK\$ million	2014				Total	
	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	contractual undiscounted cash outflow	Carrying Amount
Current liabilities						
Short-term borrowings	(3,992)	-	-	-	(3,992)	(3,877)
Trade payables	(1,091)	-	-	-	(1,091)	(1,091)
Accruals and other payables	(2,800)	-	-	-	(2,800)	(2,800)
Carrier licence fee liabilities	(463)	-	-	-	(463)	(433)
Amounts due to fellow subsidiaries and an intermediate holding company	(11,292)	-	-	-	(11,292)	(11,292)
	(19,638)	-	-	-	(19,638)	(19,493)
Non-current liabilities						
Long-term borrowings	(659)	(12,212)	(18,013)	(4,195)	(35,079)	(32,549)
Derivative financial instruments	45	10	(87)	(85)	(117)	(100)
Carrier licence fee liabilities	-	(444)	(424)	(443)	(1,311)	(954)
Other long-term liabilities	(6)	(10)	(9)	(47)	(72)	(52)
	(620)	(12,656)	(18,533)	(4,770)	(36,579)	(33,655)
Total	(20,258)	(12,656)	(18,533)	(4,770)	(56,217)	(53,148)

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

b. Liquidity risk (continued)

In HK\$ million	2015					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying Amount
Current liabilities						
Short-term borrowings	(3,907)	-	-	-	(3,907)	(3,879)
Trade payables	(1,145)	-	-	-	(1,145)	(1,145)
Accruals and other payables	(2,958)	-	-	-	(2,958)	(2,958)
Carrier licence fee liabilities	(482)	-	-	-	(482)	(452)
Amounts due to fellow subsidiaries and an intermediate holding company	(11,799)	-	-	-	(11,799)	(11,799)
	(20,291)	-	-	-	(20,291)	(20,233)
Non-current liabilities						
Long-term borrowings	(616)	(4,138)	(18,864)	(14,954)	(38,572)	(32,436)
Derivative financial instruments (note (i))	(38)	(36)	(110)	(156)	(340)	(443)
Carrier licence fee liabilities	-	(142)	(424)	(292)	(858)	(627)
Other long-term liabilities (note (ii))	(6)	(9)	(3)	(1,021)	(1,039)	(232)
	(660)	(4,325)	(19,401)	(16,423)	(40,809)	(33,738)
Total	(20,951)	(4,325)	(19,401)	(16,423)	(61,100)	(53,971)

- (i) As at December 31, 2015, derivative financial instruments of HK\$16 million (2014: nil) related to the 5 years foreign exchange forward contract with notional contract amounts of US\$376 million (approximately HK\$2,905 million), which 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 21(c) and note 22(a) for details of the guaranteed notes and the foreign exchange forward contract respectively.
- (ii) As at December 31, 2015, other long-term liabilities included HK\$47 million (2014: nil) of long term interest payable, which related to interest drawn under a 12 years 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 amounts of Euro200 million (approximately HK\$1,665 million). Please refer to note 21(e) and note 22(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 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 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 market risk sensitive 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 financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group borrowings are denominated in either Hong Kong dollars, United States dollars or Euro. As at December 31, 2014 and 2015, a majority of the Group's borrowings denominated in United States/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. Certain portion of the cross currency swap and foreign exchange forward contracts outstanding as at December 31, 2015 with an aggregate notional contract amount of US\$1,376 million (approximately HK\$10,661 million) (2014: US\$1,000 million (approximately HK\$7,769 million)) and Euro 200 million (approximately HK\$1,665 million) (2014: nil) 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 rates where necessary to address short-term imbalances.

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

In HK\$ million	2014		2015	
	United States Dollars	Euro	United States Dollars	Euro
Trade receivables	71	2	430	112
Cash and cash equivalents	112	4	141	9
Trade payables	(322)	(2)	(726)	-
Short-term borrowings	(3,877)	-	(3,879)	-
Long-term borrowings	(7,618)	-	(9,840)	(1,666)
Gross exposure arising from recognized financial liabilities	(11,634)	4	(13,874)	(1,545)
Borrowings covered by cross currency swap and foreign exchange forward contracts designated as fair value or cash flow hedges	7,760	-	9,840	1,666
Overall net exposure	(3,874)	4	(4,034)	121

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

c. Market risk (continued)

i. Foreign currency risk (Continued)

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2015, the profit after tax of the Group for the year ended December 31, 2015 would have decreased/increased by approximately HK\$34 million (2014: HK\$32 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK\$98 million (2014: HK\$39 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

If the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant as at December 31, 2015, the profit after tax of the Group for the year ended December 31, 2015 would have increased/decreased by approximately HK\$5 million (2014: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK\$83 million (2014: nil) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2014 and 2015.

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 short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings. During the year ended December 31, 2015, the Group 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

c. Market risk (continued)

ii. Interest rate risk (Continued)

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

	2014		2015	
	Effective interest rate %	HK\$ million	Effective interest rate %	HK\$ million
Net fixed rate borrowings:				
Short-term borrowings with/without cash flow hedging instruments	5.42	3,877	3.17	3,879
Long-term borrowings with/without cash flow hedging instruments	3.17	3,924	4.02	11,506
Variable rate borrowings:				
Bank borrowings	1.56	24,931	1.57	20,930
Long-term borrowings with fair value hedging instruments	3.95	3,694	-	-
Balance due to an intermediate holding company and a fellow subsidiary	0.52	7,499	0.53	7,499
Total borrowings		43,925		43,814

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 20 basis points as at December 31, 2015 (2014: 10 basis points), with all other variables held constant, the Group's profit after tax for the year ended December 31, 2015 would have decreased/increased by approximately HK\$39 million (2014: HK\$26 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred as at the end of the reporting periods and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at those dates. The 20 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the end of the next annual reporting period. The analysis is performed in the same basis for the years ended December 31, 2014 and 2015.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investment classified as financial assets at fair value through profit or loss (note 17). The investments are listed on a recognized stock exchange.

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

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

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, 2014 and 2015 except as follows:

In HK\$ million	2014		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Short-term borrowings	3,877	3,963	3,879	3,890
Long-term borrowings	32,549	32,757	32,436	32,600

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the borrowing rates. The fair values are within level 2 of the fair value hierarchy (see note 29(e)).

e. Estimation of fair values

The table below analyses 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 that are observable 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).

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

In HK\$ million	2014			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets at fair value through profit or loss	26	-	-	26
Derivative financial instruments	-	49	-	49
Total assets	26	49	-	75

Liabilities				
Derivative financial instruments	-	(100)	-	(100)

In HK\$ million	2015			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets at fair value through profit or loss	51	-	-	51
Liabilities				
Derivative financial instruments	-	(443)	-	(443)

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 FINANCIAL INSTRUMENTS (continued)

e. Estimation of fair values (continued)

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. Instruments included in level 1 comprise financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is 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. 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.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2014 and 2015.

f. Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Material movements in valuations are report to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

30 COMMITMENTS

a. Capital

An analysis of the above capital commitments by nature is as follows:

In HK\$ million	2014	2015
Authorized and contracted for acquisition of property, plant and equipment	492	342

b. Operating leases

As at December 31, 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	2014	2015
Within 1 year	762	556
After 1 year but within 5 years	495	360
After 5 years	-	1
	1,257	917

Network capacity and equipment

In HK\$ million	2014	2015
Within 1 year	63	67
After 1 year but within 5 years	222	175
After 5 years	9	-
	294	242

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2015 (2014: 1 to 11 years). None of the leases include contingent rentals.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 COMMITMENTS (continued)

c. Others

As at December 31, 2015, the Group has other outstanding commitments as follows:

In HK\$ million	2014	2015
Operating expenditure commitment	1,954	1,954

31 CONTINGENT LIABILITIES

In HK\$ million	2014	2015
Performance guarantees	1,969	1,975

The Group is subject to certain corporate guarantee obligations to guarantee performance of its fellow 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.

32 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2015 were HK\$26,671 million (2014: HK\$29,377 million) of which the unused facilities amounted to HK\$5,527 million (2014: HK\$4,230 million). Further details of the Group's management of liquidity risk are set out in note 29(b).

Summaries of major borrowings are set out in notes 20 and 21.

33 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2014

i. Acquisition of network business of CSL Holdings Limited and its subsidiaries (together the "CSL Group")

On May 15, 2014, the Group acquired network business of the CSL Group which comprises of the telecommunications services through 4G, 3G and 2G networks at a consideration of HK\$3,148 million from one of the fellow subsidiaries of the Group. The combining business is ultimately controlled by HKT Limited both before and after such business combination. The Group has applied HKFRS 3 Business Combination to account for such acquisition.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process has been finalized.

- (i) Details of net assets acquired and goodwill in respect of acquisitions of network business of CSL Group at the acquisition date were as follows:

In HK\$ million	Net assets acquired and goodwill
Aggregate purchase consideration	3,148
Less: Fair value of net assets acquired	(3,148)
Goodwill on acquisition	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 BUSINESS COMBINATIONS (continued)

a. Business combinations during the year ended December 31, 2014 (Continued)

i. Acquisition of network business of CSL Holdings Limited and its subsidiaries (together the “CSL Group”) (continued)

(i) Details of net assets acquired and goodwill in respect of acquisitions of the CSL Group at the acquisition date were as follows: (Continued)

The assets and liabilities of the CSL Group at the acquisition date were as follows:

In HK\$ million	Fair value
Property, plant and equipment	1,757
Intangible assets	2,332
Trade payables, accruals, other payables and carrier licence fee liabilities (current and non-current)	(941)
Net assets acquired	3,148
In HK\$ million	Net cash outflow
Purchase consideration	3,148
Less: consideration not yet settled	-
Cash and cash equivalents acquired	3,148
	-
	3,148

(ii) Revenue and profit contribution

The network business of the CSL Group has been integrated into the Group since its acquisition date. Accordingly, it is not practical to quantify the individual contribution of the network business to the revenue and profit of the Group during the year ended December 31, 2014 on any reasonable basis.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2015 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements – Disclosure Initiative	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment - Agriculture: Bearer Plants	January 1, 2016
HKAS 27 (2011) (Amendment)	Separate Financial Statements - Equity Method in Separate Financial Statements	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKAS 38 (Amendment)	Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 41 (Amendment)	Agriculture: Bearer Plants	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKFRS 11 (Amendment)	Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
HKFRS 12 (Amendment)	Disclosure of Interests in Other Entities - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA		January 1, 2016

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2015 and have not been early adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, new interpretations and the new ordinances would have a significant impact on the Group's results of operations and financial position.