PCCW Limited
電訊盈科有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

The directors ("Directors") of PCCW Limited ("PCCW" or the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2015.

- Core revenue increased by 19% to HK$39,149 million; consolidated revenue (including PCPD) increased by 18% to HK$39,314 million
- Core EBITDA increased by 16% to HK$12,139 million; consolidated EBITDA (including PCPD) increased by 15% to HK$11,878 million
- Core profit attributable to equity holders of the Company increased by 23% to HK$2,370 million; consolidated profit attributable to equity holders of the Company from continuing operations (excluding PCPD's one-time gain on disposal in 2014) increased by 36% to HK$2,117 million
- Final dividend of 17.04 HK cents per ordinary share

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

MANAGEMENT REVIEW

PCCW registered a solid result for the year ended December 31, 2015 demonstrating resilient operational and financial performance while continuing to reinvest and drive future growth.

Core revenue for the year ended December 31, 2015 increased by 19% to HK$39,149 million. Core EBITDA increased by 16% to HK$12,139 million. These results in particular reflect the successful integration of CSL Holdings Limited ("CSL") and the accompanying financial benefits.

Including PCPD, consolidated revenue for the year ended December 31, 2015 increased by 18% to HK$39,314 million and consolidated EBITDA increased by 15% to HK$11,878 million.

Core profit attributable to equity holders of the Company increased by 23% to HK$2,370 million in 2015 from HK$1,931 million in 2014. Excluding the one-time gain on disposal of the entire interest in Pacific Century Place, Beijing by PCPD in 2014, the consolidated profit attributable to equity holders of the Company from continuing operations increased by 36% to HK$2,117 million in 2015.

Consolidated profit attributable to equity holders of the Company was HK$2,295 million, and basic earnings per share were 30.58 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 17.04 HK cents per ordinary share for the year ended December 31, 2015.

OUTLOOK

In the coming year, PCCW will continue to embrace the changes brought by the increasing digital lifestyle of consumers and digital transformation of enterprises. There will be increasing demand for content, connectivity, IT and cloud capabilities to drive business efficiencies and enhance customer experience, such as real time big data analytics which is made possible with the advance of Internet of Things ("IoT"). As a customer-centric organization, the Group will continue to build our offerings and innovations to meet the future needs of our customers in the medium and longer term, thereby also benefiting from this trend. In this regard, our media, IT solutions and telecommunications businesses can collectively play a significant role and contribute to the overall growth of the Group.

While maintaining our leadership in the Hong Kong pay-TV market, PCCW Media will be actively rolling out the Viu over-the-top ("OTT") video service internationally. Following the launch in Hong Kong, Singapore and Malaysia, Viu will have expanded presence in Indonesia and India in the first quarter. The service will capture the growing digital advertising and online subscription market. It is our goal to become the preeminent multi-screen video entertainment hub for Asian content in the region, and ultimately globally.

On domestic free television, HK Television Entertainment Company Limited has assembled a creative team of professionals in preparation for the commencement of broadcasting in April 2016. It has embarked on the production and acquisition of quality content to bring over 4,000 hours of fresh programming each year to offer Hong Kong viewers more choices in TV entertainment.

PCCW Solutions has identified a number of growth drivers and will capitalize on the increasing market demand for digital, IoT and cloud solutions and facilities in Hong Kong and mainland China. A recently launched cloud solutions suite, "Infinitum", offers customers comprehensive enterprise business applications and digital and analytics solutions.

As Hong Kong's largest provider of fixed line, broadband and mobile communications, HKT together with the Media business will continue to leverage our unique quadruple-play capabilities and make a solid and steady contribution to the Group.

While both the local and global economic outlook in 2016 appears fragile, given our strong fundamentals, our efforts taken to transform ourselves in this digital era as outlined earlier, and a talented pool of staff who are motivated to excel, the Group is well-positioned for sustainable growth as it continues its journey to become a major player in the region.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	**2014**			**2015**			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
Revenue							
HKT	12,520	16,303	**28,823**	15,974	18,755	**34,729**	20%
Media Business	1,487	1,744	**3,231**	1,590	1,780	**3,370**	4%
Solutions Business	1,459	1,911	**3,370**	1,500	2,094	**3,594**	7%
Other Businesses	18	26	**44**	25	34	**59**	34%
Eliminations	(1,044)	(1,462)	**(2,506)**	(1,106)	(1,497)	**(2,603)**	(4)%
Core revenue	14,440	18,522	**32,962**	17,983	21,166	**39,149**	19%
PCPD	224	91	**315**	99	66	**165**	(48)%
Consolidated revenue	14,664	18,613	**33,277**	18,082	21,232	**39,314**	18%
Cost of sales	(6,782)	(8,369)	**(15,151)**	(8,027)	(10,938)	**(18,965)**	(25)%
Operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment and intangible assets, net	(3,506)	(4,280)	**(7,786)**	(4,372)	(4,099)	**(8,471)**	(9)%
EBITDA[1]							
HKT	4,425	5,817	**10,242**	5,770	6,330	**12,100**	18%
Media Business	180	272	**452**	182	211	**393**	(13)%
Solutions Business	232	390	**622**	246	442	**688**	11%
Other Businesses	(301)	(329)	**(630)**	(324)	(386)	**(710)**	(13)%
Eliminations	(79)	(101)	**(180)**	(90)	(242)	**(332)**	(84)%
Core EBITDA[1]	4,457	6,049	**10,506**	5,784	6,355	**12,139**	16%
PCPD	(81)	(85)	**(166)**	(101)	(160)	**(261)**	(57)%
Consolidated EBITDA[1]	4,376	5,964	**10,340**	5,683	6,195	**11,878**	15%
Core EBITDA**[1] **Margin	*31%*	*33%*	***32%***	*32%*	*30%*	***31%***	
Consolidated EBITDA**[1] **Margin	*30%*	*32%*	***31%***	*31%*	*29%*	***30%***	
Depreciation and amortization	(2,517)	(3,786)	**(6,303)**	(2,930)	(3,130)	**(6,060)**	4%
(Loss)/Gain on disposal of property, plant and equipment and intangible assets, net	(2)	–	**(2)**	4	(7)	**(3)**	(50)%
Other gains, net	688	2,029	**2,717**	60	75	**135**	(95)%
Interest income	45	45	**90**	35	52	**87**	(3)%
Finance costs	(573)	(845)	**(1,418)**	(764)	(870)	**(1,634)**	(15)%
Share of results of associates and joint ventures	9	41	**50**	13	24	**37**	(26)%
Profit before income tax	2,026	3,448	**5,474**	2,101	2,339	**4,440**	(19)%

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

Note 2 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*

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

HKT

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	2015 H1	2015 H2	2015 Full Year	Better/ (Worse) y-o-y
HKT Revenue	12,520	16,303	**28,823**	15,974	18,755	**34,729**	20%
HKT EBITDA[1]	4,425	5,817	**10,242**	5,770	6,330	**12,100**	18%
HKT EBITDA[1] margin	*35%*	*36%*	***36%***	*36%*	*34%*	***35%***	
HKT Adjusted Funds Flow	1,590	1,764	**3,354**	1,953	2,140	**4,093**	22%

HKT reported another set of fruitful financial results for the year ended December 31, 2015, reflecting the underlying strength and resilience of each of its lines of business and successful integration of CSL during the year.

Total revenue for the year ended December 31, 2015 increased by 20% to HK$34,729 million and total EBITDA for the year was HK$12,100 million, an increase of 18% over the previous year. Adjusted funds flow for the year ended December 31, 2015 reached HK$4,093 million, an increase of 22% over the previous year.

HKT recommended the payment of a final distribution of 28.27 HK cents per share stapled unit for the year ended December 31, 2015. This brings the 2015 full-year distribution to 54.06 HK cents per share stapled unit, representing the complete payout of the adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2015 annual results announcement released on February 25, 2016.

Media Business

now TV *Business*

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	2015 H1	2015 H2	2015 Full Year	Better/(Worse) y-o-y
now TV Business Revenue	1,346	1,557	**2,903**	1,425	1,513	**2,938**	1%
now TV Business EBITDA[1]	185	294	**479**	207	284	**491**	3%
now TV Business EBITDA[1] margin	*14%*	*19%*	***17%***	*15%*	*19%*	***17%***	

The now TV Business comprises the pay-TV service and its related services provided in Hong Kong under the now brand. Despite the changing landscape of increasing availability of content across different platforms, free or otherwise, in the market, the now TV Business continued to expand its average revenue per user ("ARPU") and customer base. The total installed subscriber base reached 1,304,000 by the end of December 2015, representing a net gain of 19,000 subscribers from 12 months ago. The exit ARPU at the end of December 2015 rose to HK$197 from HK$195 a year earlier, reflecting customers' reception to the new genre pack pricing, the vast and diversified quality content that now TV offers as well as the value of its TV-Everywhere offerings via now TV apps that meet the evolving needs of today's viewers.

As a result, revenue for the now TV Business for the year ended December 31, 2015 increased by 1% to HK$2,938 million from HK$2,903 million a year earlier and EBITDA increased by 3% to HK$491 million from HK$479 million a year ago. The EBITDA margin remained steady at 17%.

OTT Business

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	2015 H1	2015 H2	2015 Full Year	Better/(Worse) y-o-y
OTT Business Revenue	141	187	**328**	165	267	**432**	32%
OTT Business EBITDA[1]	(1)	(18)	**(19)**	(17)	(41)	**(58)**	(205)%

Our OTT Business primarily consists of our OTT video business under the brand, Viu, and our OTT music business under the brand, MOOV.

During the year, PCCW Media launched the Viu OTT video service as a strategic move to expand upon the investment into Vuclip, Inc. ("Vuclip"). Vuclip is a leading premium mobile video-on-demand service provider having presence in 10 markets such as India, UAE, Kuwait, Egypt, Kenya, Thailand, Malaysia, Indonesia, etc. Following the investment, the Media business has been actively expanding the platform, launching in Hong Kong, Singapore and most recently Malaysia under the new Viu brand. As of the end of December 2015, Viu had 9 million subscribers.

Viu offers an expanding catalogue of around 10,000 hours of premium Asian content, and has clinched landmark pan-regional deals with the top four South Korean broadcasters giving Viu around 4,000 new hours of the latest South Korean drama and variety shows with an exclusive head-start window each year.

The Media business aims to establish Viu as the leading OTT video service of premium Asian content in the region and eventually globally and will continue to rollout in other markets to further grow the customer base.

Revenue from the OTT Business grew by 32% to HK$432 million from HK$328 million a year ago and incurred an EBITDA cost of HK$58 million for the year ended December 31, 2015. These results reflected the inclusion of Viu as well as the initial investments in branding, content and new market launches.

Free TV Business

For the year ended December 31, HK$ million	**2014**			**2015**			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
Free TV Business EBITDA[1]	(4)	(4)	**(8)**	(8)	(32)	**(40)**	(400)%

The Group's domestic free TV service under the brand, ViuTV, will begin broadcasting in April 2016. ViuTV has assembled a professional team and commenced the production and acquisition of relevant programs including factual entertainment, variety, drama, kids, arts and culture, finance, sports, news and current affairs providing Hong Kong viewers more choices of TV entertainment.

Upfront investments of HK$40 million were incurred in 2015 for the launch of the ViuTV brand as well as the formation of the ViuTV team.

Solutions Business

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	2015 H1	2015 H2	2015 Full Year	Better/ (Worse) y-o-y
Solutions Business Revenue	1,459	1,911	**3,370**	1,500	2,094	**3,594**	7%
Solutions Business EBITDA[1]	232	390	**622**	246	442	**688**	11%
Solutions Business EBITDA[1] margin	*16%*	*20%*	***18%***	*16%*	*21%*	***19%***	

Revenue generated by the Solutions business for the year ended December 31, 2015 increased by 7% to HK$3,594 million, from HK$3,370 million a year ago. Importantly, a large portion of the revenue growth was from revenue of a recurring nature. This segment grew by 9% and represented 53% of total Solutions business revenue in 2015.

The revenue growth in 2015 was attributable to increased revenue from our data center operations and to higher growth in our China operations, particularly from enterprise application implementation projects. Our data center operations have benefited from investments made over the past 2 years in our Kwai Chung facility to meet the increasing demand for data center requirements from our customers. The demand for high quality IT solutions in China continues to grow and PCCW Solutions is well positioned to be the partner of choice for our enterprise customers.

Overall, the Solutions business maintained a well diversified business across a wide range of service offerings. Revenue breakdown by service line for the year ended December 31, 2015 was: Enterprise Applications 30%, Cloud Solutions & Infrastructure 25%, Technical Services 24%, Application Development & Maintenance 14% and Business Process Outsourcing 7%.

Revenue by client industry continued to be well balanced. For the year ended December 31, 2015, the breakdown was: Public Sector 34%, Telecommunications 31%, Hi-Tech & Media 12%, Travel & Hospitality 9%, Banking/Finance Services & Insurance 6%, Retail & Manufacturing 5% and other industries 3%.

EBITDA for the year increased by 11% to HK$688 million from HK$622 million a year ago, with the margin rising to 19% which demonstrates the operating leverage and improved utilization levels within the Solutions business.

As at December 31, 2015, the Solutions business had secured orders with a value of HK$5,379 million.

PCPD

With the disposal of the entire interest in Pacific Century Place, Beijing in August 2014, PCPD is entering into an investment phase. PCPD recorded total revenue of HK$165 million, representing primarily income from ski operation in Japan and facilities management fee, and a negative EBITDA of HK$261 million for the year ended December 31, 2015. In 2014, PCPD's total revenue was HK$315 million (which still included rental income of HK$149 million from Pacific Century Place, Beijing) and negative EBITDA was HK$166 million.

The major development project of PCPD, a Premium Grade A office building in Jakarta located in the central business district of Sudirman, Indonesia, made substantial progress in construction and leasing activities during the year. In September 2015, Citibank, N.A., Indonesia signed an agreement in relation to its commitment to take up over five floors of the 40-storey building. The building is targeted for completion in 2017.

Detailed designs of the Hanazono all-season resort project in Niseko, Hokkaido, Japan, are being worked on as scheduled and the Group entered into a hotel management agreement with Hyatt Hotels Corporation's affiliates for the development of a Park Hyatt hotel and residences. The resort is expected to open in 2019 with a selection of specialty restaurants, extensive meeting space, golf clubhouse, ski shop and valet, destination spa, fitness center, and swimming pool.

For more information about the performance of PCPD, please refer to its 2015 annual results announcement released on February 26, 2016.

Other Businesses

Other Businesses primarily comprises the wireless broadband business in the United Kingdom and corporate support functions. To capitalize on our extensive holdings of national commercial spectrum and the demand for high speed broadband in London, we launched a wireless broadband service under the brand name, Relish. The business aims to provide affordable and customer friendly high speed wireless broadband services to retail customers and small to medium enterprises in the Central London region.

Revenue from Other Businesses was HK$59 million for the year ended December 31, 2015 (2014: HK$44 million), while the cost of the Group's Other Businesses was HK$710 million in 2015 (2014: HK$630 million).

Eliminations

Eliminations for the year ended December 31, 2015 were HK$2,603 million (2014: HK$2,506 million). Eliminations mainly represented eliminations of intra-group sale and transfer of rights to use certain equipment and assets in the ordinary course of business on an arm's length basis.

Costs

Cost of Sales

For the year ended December 31, HK$ million	2014			2015			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
HKT	5,333	6,720	**12,053**	6,544	8,995	**15,539**	(29)%
The Group (excluding PCPD)	6,730	8,340	**15,070**	8,003	10,908	**18,911**	(25)%
Consolidated	6,782	8,369	**15,151**	8,027	10,938	**18,965**	(25)%

HKT's cost of sales for the year ended December 31, 2015 increased by 29% to HK$15,539 million, which was in line with the revenue growth during the year. Gross margin was 55% in 2015, as compared to 58% a year ago, mainly due to the lower margin on mobile handset sales.

Cost of sales for the core businesses increased by 25% reflecting the higher cost of sales at HKT and in line with the revenue growth for the Media and Solutions businesses. Gross margin for the core businesses was 52% in 2015, as compared to 54% a year ago.

The Group's consolidated total cost of sales for the year ended December 31, 2015 increased by 25% to HK$18,965 million.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment and intangible assets, net, increased by 9% to HK$8,471 million as a result of the full-year impact of CSL as well as investments to expand Media's OTT and Free TV teams and to support the ongoing growth of Solutions business. However, operating costs to revenue ratio improved markedly to 21.5% driven by the realization of synergies from the successful integration of CSL.

Depreciation and amortization expenses decreased by 4% to HK$6,060 million for the year ended December 31, 2015, from HK$6,303 million in 2014. The decrease was mainly contributed by the recognition of one-off accelerated depreciation charges in 2014 when the useful lives of certain network assets of HKT were reassessed during the network integration process following the CSL acquisition.

General and administrative expenses, therefore, increased by 3% to HK$14,534 million for the year ended December 31, 2015.

EBITDA[1]

For the year ended December 31, 2015 core EBITDA increased by 16% to HK$12,139 million reflecting strong performances from all of our core businesses but moderated by investments into the OTT and Free TV businesses. Core EBITDA margin was stable at 31%.

Consolidated EBITDA increased by 15% to HK$11,878 million for the year representing a margin of 30%.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2015 was HK$87 million and finance costs increased by 15% to HK$1,634 million due to the full-year impact of interest on borrowings raised by HKT to finance the CSL acquisition and the rebalancing of floating rate debt to fixed rate debt during the year. Average cost of debt was 2.92% in 2015, as compared to 2.65% a year ago. As a result, net finance costs increased by 16% to HK$1,547 million for the year ended December 31, 2015.

Income Tax

Income tax expense for the year ended December 31, 2015 was HK$447 million, as compared to HK$803 million a year ago, representing an effective tax rate of 10% for the year. The decrease in the tax expenses is mainly due to prior year's provision of overseas tax from the disposal of an overseas subsidiary.

Excluding PCPD, income tax expense for the year ended December 31, 2015 was HK$634 million compared to a tax credit in 2014 due to the increase in taxable profit resulting from the acquisition of mobile group companies.

Non-controlling Interests

Non-controlling interests were HK$1,698 million for the year ended December 31, 2015 (2014: HK$1,361 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company from continuing operations (excluding PCPD's one-time gain on disposal in 2014) was HK$2,117 million in 2015, a year-on-year increase of 36% compared to HK$1,561 million in 2014.

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2015 decreased by 31% to HK$2,295 million (2014: HK$3,310 million) mainly due to recognition of a one-time gain on disposal of PCPD's entire interest in Pacific Century Place in Beijing in 2014.

LIQUIDITY AND CAPITAL RESOURCES

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

During the year, HKT took advantage of the favorable interest rate environment and raised a total of approximately US$1,013 million through the issuance of US$300 million in 15-year, zero coupon guaranteed notes, US$500 million in 10-year, 3.625% guaranteed notes and €200 million in 12-year, 1.65% guaranteed notes. During the year, PCCW also raised US$100 million through the issuance of 15-year, zero coupon guaranteed notes. The use of proceeds was for general corporate purposes including the refinancing of outstanding debt. The Group's gross debt[2] was HK$42,722 million as at December 31, 2015 (December 31, 2014: HK$41,957 million). Cash and cash equivalents totaled HK$7,503 million as at December 31, 2015 (December 31, 2014: HK$7,943 million).

As at December 31, 2015, the Group had a total of HK$38,431 million in committed bank loan facilities available for liquidity management, of which HK$14,535 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$26,671 million, of which HK$5,527 million remained undrawn.

The Group's gross debt[2] to total assets was 57% as at December 31, 2015 (December 31, 2014: 57%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2015, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[3]

Group capital expenditure for the year ended December 31, 2015 was HK$3,534 million (2014: HK$3,222 million), of which HKT accounted for about 86% in 2015 (2014: 78%). A significant proportion of the capital investments made by the Group for the year was attributable to the network integration and coverage improvement work for the Mobile business. The remainder of the investments was used for the upgrading of equipment in the Media business. Capital expenditure for the Solutions business tapered off in 2015 compared to a year ago as we have neared the completion of the data center investment cycle that commenced almost two years ago.

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

HEDGING

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currency including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2015, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the Group's foreign currency denominated borrowings.

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

CHARGE ON ASSETS

As at December 31, 2015, certain assets of the Group with an aggregate carrying value of HK$2,242 million (2014: HK$2,050 million) and performance guarantee of approximately HK$161 million (2014: HK$166 million) in relation to the construction of the Premium Grade A office building in Jakarta, Indonesia were pledged for certain bank loan facilities.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2014	**2015**
Performance guarantees	2,338	**2,391**
Tender guarantees	52	**–**
Others	99	**90**
	2,489	**2,481**

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

HUMAN RESOURCES

The Group had over 25,400 employees as at December 31, 2015 (2014: 23,500) located in over 45 countries and cities. About 59% of these employees work in Hong Kong and the others are based mainly in mainland China and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 17.04 HK cents (2014: 13.21 HK cents) per ordinary share for the year ended December 31, 2015 to shareholders whose names appear on the register of members of the Company on Thursday, May 12, 2016, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 5, 2016 ("AGM"). An interim dividend of 7.96 HK cents (2014: 6.99 HK cents) per ordinary share for the six months ended June 30, 2015 was paid to shareholders of the Company in October 2015.

The Board has also proposed to offer eligible shareholders the option to participate in a scrip dividend alternative to elect to receive the final dividend wholly or partly in the form of new shares instead of cash (the "2015 Final Scrip Dividend Scheme"). The 2015 Final Scrip Dividend Scheme is conditional upon (a) shareholders' approval of the final dividend at the AGM; and (b) The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the 2015 Final Scrip Dividend Scheme. Full details of the 2015 Final Scrip Dividend Scheme will be set out in a circular proposed to be despatched to shareholders on or around Thursday, May 19, 2016.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Thursday, May 12, 2016. The Company's register of members will be closed from Wednesday, May 11, 2016 to Thursday, May 12, 2016 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (the "Share Registrar"), for registration no later than 4:30 p.m. on Tuesday, May 10, 2016. Subject to the approval of shareholders of the Company at the AGM, dividend warrants and share certificates to be issued under the 2015 Final Scrip Dividend Scheme will be despatched to shareholders on or around Tuesday, June 21, 2016.

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

The record date for determining the entitlement of the shareholders of the Company to attend and vote at the AGM will be Tuesday, May 3, 2016. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Share Registrar for registration no later than 4:30 p.m. on Tuesday, May 3, 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2015.

CORPORATE GOVERNANCE CODE

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended December 31, 2015, save and except for code provision F.1.2 as the appointments of company secretary during the year were discussed and approved at the physical executive committee meetings in accordance with the delegated Board authority, of which the Directors were briefed on the outcome, and therefore the requirement by code provision F.1.2 of the CG Code to approve these matters by physical Board meetings has not been complied with. It is considered that the approval process is efficient and appropriate in the view of Directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2015 annual report will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board of
PCCW Limited
Grace M.Y. Lee
Group General Counsel and Company Secretary

Hong Kong, February 26, 2016

AUDITED CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2015
(In HK$ million except for earnings per share)

	Note(s)	2014	**2015**
Revenue	2	33,277	**39,314**
Cost of sales		(15,151)	**(18,965)**
General and administrative expenses		(14,091)	**(14,534)**
Other gains, net	3	2,717	**135**
Interest income		90	**87**
Finance costs		(1,418)	**(1,634)**
Share of results of associates		45	**52**
Share of results of joint ventures		5	**(15)**
Profit before income tax	2, 4	5,474	**4,440**
Income tax	5	(803)	**(447)**
Profit for the year		4,671	**3,993**
Attributable to:			
Equity holders of the Company		3,310	**2,295**
Non-controlling interests		1,361	**1,698**
Profit for the year		4,671	**3,993**
Earnings per share	7		
Basic		45.14 cents	**30.58 cents**
Diluted		45.05 cents	**30.54 cents**

Additional note:

Excluding the net impacts of one-time gain on disposal of the entire interest in Pacific Century Place, Beijing by PCPD in 2014, the consolidated profit attributable to equity holders of the Company from continuing operations were HK$1,561 million and HK$2,117 million for the years ended December 31, 2014 and 2015, respectively.

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2015
(In HK$ million)

	2014	**2015**
Profit for the year	4,671	**3,993**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to income statement:		
Remeasurements of defined benefit obligations	(15)	**(18)**
Share of other comprehensive loss of an associate	(1)	–
	(16)	**(18)**
Items that have been reclassified or may be reclassified subsequently to income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	(389)	**(402)**
- exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	(1,324)	–
Available-for-sale financial assets:		
- changes in fair value	(87)	**(10)**
- transfer to income statement on disposal	(1)	**(1)**
Cash flow hedges:		
- effective portion of changes in fair value	10	**(309)**
- transfer from equity to income statement	(4)	**(67)**
	(1,795)	**(789)**
Other comprehensive loss for the year	(1,811)	**(807)**
Total comprehensive income for the year	2,860	**3,186**
Attributable to:		
Equity holders of the Company	1,742	**1,690**
Non-controlling interests	1,118	**1,496**
Total comprehensive income for the year	2,860	**3,186**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2015
(In HK$ million)

				(Additional information)	
		The Group		The Company	
	Note*	2014	**2015**	2014	**2015**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		17,337	**18,713**	–	**–**
Investment properties		1,878	**2,084**	–	**–**
Interests in leasehold land		464	**442**	–	**–**
Properties held for/under development		895	**851**	–	**–**
Goodwill		17,075	**18,183**	–	**–**
Intangible assets		10,195	**10,526**	–	**–**
Interests in subsidiaries		–	**–**	17,072	**17,072**
Interests in associates		687	**618**	–	**–**
Interests in joint ventures		497	**485**	–	**–**
Held-to-maturity investments		1	**–**	–	**–**
Available-for-sale financial assets		754	**806**	–	**–**
Deferred income tax assets		1,059	**1,066**	–	**–**
Other non-current assets		806	**845**	–	**–**
		51,648	**54,619**	17,072	**17,072**
Current assets					
Amounts due from subsidiaries		–	**–**	16,484	**18,862**
Sales proceeds held in stakeholders’ accounts		528	**513**	–	**–**
Restricted cash		1,022	**106**	–	**–**
Prepayments, deposits and other current assets		6,429	**7,106**	38	**36**
Inventories		801	**774**	–	**–**
Amounts due from related companies		95	**90**	–	**–**
Derivative financial instruments		49	**60**	–	**–**
Trade receivables, net	8	4,497	**3,969**	–	**–**
Tax recoverable		27	**17**	–	**–**
Short-term deposits		–	**1**	–	**–**
Cash and cash equivalents		7,943	**7,503**	1,093	**815**
		21,391	**20,139**	17,615	**19,713**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at December 31, 2015
(In HK$ million)

				(Additional information)	
		The Group		The Company	
	Note*	2014	**2015**	2014	**2015**
Current liabilities					
Short-term borrowings	10	(4,823)	**(3,879)**	(946)	**–**
Trade payables	9	(2,331)	**(2,494)**	–	**–**
Accruals and other payables		(6,787)	**(6,763)**	(11)	**(12)**
Amount payable to the Government under the Cyberport Project Agreement		(522)	**(322)**	–	**–**
Carrier licence fee liabilities		(429)	**(448)**	–	**–**
Amounts due to related companies		(98)	**(69)**	–	**–**
Advances from customers		(2,155)	**(2,168)**	–	**–**
Current income tax liabilities		(1,873)	**(1,350)**	–	**–**
		(19,018)	**(17,493)**	(957)	**(12)**
Non-current liabilities					
Long-term borrowings	11	(36,494)	**(38,090)**	(1,778)	**(2,690)**
Amount due to subsidiaries		–	**–**	(2,167)	**(2,987)**
Derivative financial instruments		(217)	**(586)**	(117)	**(143)**
Deferred income tax liabilities		(2,501)	**(2,775)**	–	**–**
Deferred income		(1,033)	**(1,079)**	–	**–**
Defined benefit liability		(116)	**(133)**	–	**–**
Carrier licence fee liabilities		(949)	**(627)**	–	**–**
Other long-term liabilities		(342)	**(633)**	–	**–**
		(41,652)	**(43,923)**	(4,062)	**(5,820)**
Net assets		12,369	**13,342**	29,668	**30,953**
CAPITAL AND RESERVES					
Share capital	12	11,720	**12,505**	11,720	**12,505**
Reserves		(1,563)	**(1,481)**	17,948	**18,448**
Equity attributable to equity holders of the Company		10,157	**11,024**	29,668	**30,953**
Non-controlling interests		2,212	**2,318**	–	**–**
Total equity		12,369	**13,342**	29,668	**30,953**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2015 and 2014 are presented only as additional information to these consolidated financial statements.

NOTES

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES

(a) The accounting policies and methods of computation used in preparing the financial information extracted from the audited consolidated financial statements are consistent with those followed in preparing the annual financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2014, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are relevant to the Group's operation and are effective for accounting periods beginning on or after January 1, 2015. The HKFRSs include 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").

The following new and revised HKFRSs are mandatory for the first time for the financial year beginning January 1, 2015, but had no material effect on the Group's reported 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 early adopted any new or revised HKFRSs that are not yet effective for the current accounting period. In addition, the new Hong Kong Companies Ordinance (Cap. 622) abolished the concept of "par value" or "nominal value" of shares and "authorized share capital" for all Hong Kong incorporated companies with effect from March 3, 2014 and this change is reflected in note 12.

The financial information relating to the years ended December 31, 2015 and 2014 included in this preliminary announcement of annual results for the year ended December 31, 2015 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2014 to the Registrar of Companies as required by section 109(3) of the predecessor Hong Kong Companies Ordinance (Cap. 32). The Company will deliver the financial statements for the year ended December 31, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) in due course.

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

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Key accounting judgements and sources of estimation uncertainty are discussed below:

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

i. 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.

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

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following classes of asset 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;
- properties held for/under development;
- intangible assets;
- interests in associates and joint arrangements;
- goodwill; and
- interests in subsidiaries (at Company level).

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 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.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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

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 assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

For the year ended December 31, 2015, no provision for impairment (2014: HK$84 million) was recognized on the property held for development.

For the year ended December 31, 2015, provisions for impairment of interests in an associate and a joint venture of HK$95 million (2014: HK$52 million) and HK$5 million (2014: nil) respectively were recognized resulting in the carrying amount being written down to their respective recoverable amounts.

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.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (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 estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

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 judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

vi. Recognition of intangible asset – Carrier licences

In order to measure the intangible assets, HKAS 39 (revised) '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 results of operations and financial position could be materially different.

vii. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected market yield, market price, market rent and the outstanding development costs in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different market yields, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2015, the fair value of the investment properties was HK$2,084 million (2014: HK$1,878 million).

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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

The Group applies the acquisition method of accounting to account for acquisitions of businesses. 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.

ix. Consolidation of entities in which the Group holds not more than 50% equity interest

The Group has considered that All's Well Media Company Limited ("AWL"), Now Jelli Media Limited ("NJL"), 廣東電盈信息科技有限公司 (PCCW Information Communication Technologies Co. Ltd.*) ("PICT") and Yinghuan Network Technology (Shanghai) Co., Ltd. ("YNT"), are controlled by the Group, even though the Group holds not more than 50% equity interest of each of these companies.

As at December 31, 2015, the Group held the respective effective equity interests of 35.02% in AWL, 50% in NJL and PICT and approximately 31.54% in YNT. These companies are consolidated by the Group as the Group has sufficient dominant voting interest and power to direct their key financing and operating decisions.

* Unofficial company name

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

x. 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.

The Group classified joint arrangements as joint operations whereby the Group has rights to assets and obligations for the liabilities of the arrangement.

xi. Purchase consideration for a plot of land in Indonesia

On May 23, 2013, Pacific Century Premium Developments Limited ("PCPD") and its subsidiaries (collectively the "PCPD Group") entered into the Land Sale and Purchase Agreement (the "Land SPA") for the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The total consideration under the Land SPA is US$184 million (equivalent to approximately HK$1,428 million), which is subject to various downward adjustments in certain circumstances.

Management expected that the seller of the land will be able to fulfill the conditions as set out in the Land SPA and the deductions from the outstanding consideration is unlikely, as such the total consideration of US$184 million is recorded as the cost of the land and the outstanding consideration to be paid is recorded as payables as at December 31, 2015.

In case there is any downward adjustment from the consideration to be paid for the land acquisition, it would affect the payable to the seller recorded in the consolidated statement of financial position as at December 31, 2015.

xii. Cost of sales and amount payable to the Government under the Cyberport Project Agreement

Pursuant to the agreement dated May 17, 2000 entered into with the Government of Hong Kong (the "Government") (the "Cyberport Project Agreement"), the Government is entitled to receive approximately 65% of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the Government are part of the Group's costs of developing the Cyberport project.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government is allocated to the cost of properties sold. Had the estimates of these relative values been revised, this would have affected the costs of properties sold recorded in the consolidated income statement.

2. SEGMENT INFORMATION

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

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

- HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

- Media Business includes interactive pay-TV service, Internet portal multimedia entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world.

- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong, Macau and mainland China.

- PCPD covers the Group's property portfolio in Hong Kong, mainland China and elsewhere in Asia.

- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

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

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

2. SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2014
(In HK$ million)

	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
Total Revenue	28,823	3,231	3,370	44	315	(2,506)	33,277
RESULTS							
EBITDA	10,242	452	622	(630)	(166)	(180)	10,340

For the year ended December 31, 2015
(In HK$ million)

	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
Total Revenue	**34,729**	**3,370**	**3,594**	**59**	**165**	**(2,603)**	**39,314**
RESULTS							
EBITDA	**12,100**	**393**	**688**	**(710)**	**(261)**	**(332)**	**11,878**

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

In HK$ million	2014	**2015**
Total segment EBITDA	10,340	**11,878**
Loss on disposal of property, plant and equipment and intangible assets, net	(2)	**(3)**
Depreciation and amortization	(6,303)	**(6,060)**
Other gains, net	2,717	**135**
Interest income	90	**87**
Finance costs	(1,418)	**(1,634)**
Share of results of associates and joint ventures	50	**37**
Profit before income tax	5,474	**4,440**

2. SEGMENT INFORMATION (CONTINUED)

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

In HK$ million	2014	**2015**
Hong Kong (place of domicile)	25,796	**30,701**
Mainland China (excluding Hong Kong), Macau and Taiwan, China	2,222	**1,988**
Others	5,259	**6,625**
	33,277	**39,314**

3. OTHER GAINS, NET

In HK$ million	2014	**2015**
Gain on disposal of subsidiaries	2,112	**–**
Gain on disposal of an associate	–	**75**
Gain on remeasuring an available-for-sale investment upon a step acquisition	–	**29**
Fair value gains/(losses) on investment properties	656	**(4)**
Net gains on cash flow hedging instruments transferred from equity	2	**56**
Net gains on fair value hedging instruments	47	**48**
Fair value loss on derivative financial instrument	–	**(2)**
Net gains from return of investment in available-for-sale financial assets	33	**–**
Net realized gains on disposal of available-for-sale financial assets	1	**32**
Provision for impairment of an interest in an associate	(52)	**(95)**
Provision for impairment of an interest in a joint venture	–	**(5)**
Provision for impairment of available-for-sale financial assets	(12)	**(2)**
Provision for impairment of property held for development	(84)	**–**
Others	14	**3**
	2,717	**135**

4. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK$ million	2014	**2015**
Charging:		
Cost of inventories sold	3,187	**6,359**
Cost of sales, excluding inventories sold	11,964	**12,606**
Depreciation of property, plant and equipment	3,408	**2,141**
Amortization of intangible assets	2,873	**3,897**
Amortization of land lease premium – interests in leasehold land	22	**22**
Loss on disposal of property, plant and equipment and intangible assets, net	2	**3**
Interest on borrowings	1,283	**1,439**
Staff costs	3,113	**3,394**

5. INCOME TAX

In HK$ million	2014	**2015**
Hong Kong profits tax	(60)	**491**
Overseas tax	742	**(124)**
Movement of deferred income tax	121	**80**
	803	**447**

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Overseas tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

6. DIVIDENDS

In HK$ million	2014	**2015**
Interim dividend declared and paid in respect of current year of 7.96 HK cents (2014: 6.99 HK cents) per ordinary share	517	**601**
Less: dividend for shares held by share award schemes	(2)	**(2)**
	515	**599**
Final dividend declared in respect of previous financial year, approved and paid during the year of 13.21 HK cents (2014: 13.85 HK cents) per ordinary share	1,009	**985**
Less: dividend for shares held by share award schemes	(3)	**(2)**
	1,006	**983**
	1,521	**1,582**
Final dividend proposed after the end of the reporting period of 17.04 HK cents (2014: 13.21 HK cents) per ordinary share	985	**1,299**

(a) The final dividend proposed after the end of the reporting period has not been recognized as a liability as at the end of the reporting period.

(b) The 2015 final dividend will be payable in cash with a scrip dividend alternative subject to (i) shareholders' approval of the final dividend at the annual general meeting; and (ii) The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued.

(c) For details of shares issued in lieu of cash dividends, please refer to note 12(a).

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following data:

	2014	**2015**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	3,310	**2,295**
Number of shares		
Weighted average number of ordinary shares	7,353,412,940	**7,521,736,989**
Effect of shares held under the Company's share award schemes	(20,355,930)	**(17,131,028)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,333,057,010	**7,504,605,961**
Effect of shares awarded under the Company's share award schemes	13,894,498	**9,571,065**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,346,951,508	**7,514,177,026**

8. TRADE RECEIVABLES, NET

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

In HK$ million	2014	**2015**
0 – 30 days	2,479	**2,297**
31 – 60 days	640	**651**
61 – 90 days	289	**256**
91 – 120 days	190	**207**
Over 120 days	1,133	**805**
	4,731	**4,216**
Less: Impairment loss for doubtful debts	(234)	**(247)**
	4,497	**3,969**

Included in trade receivables, net were amounts due from related parties of HK$49 million (2014: HK$76 million).

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.

9. TRADE PAYABLES

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

In HK$ million	2014	**2015**
0 – 30 days	1,180	**1,571**
31 – 60 days	148	**102**
61 – 90 days	40	**81**
91 – 120 days	59	**101**
Over 120 days	904	**639**
	2,331	**2,494**

Included in trade payables were amounts due to related parties of HK$61 million (2014: HK$22 million).

10. SHORT-TERM BORROWINGS

In HK$ million	2014	**2015**
US$500 million 5.25% guaranteed notes due 2015 (note (a))	3,877	–
US$500 million 4.25% guaranteed notes due 2016 (note (b))	–	**3,879**
Bank borrowings (note (c))	946	–
	4,823	**3,879**
Secured	–	–
Unsecured	4,823	**3,879**

(a) US$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect non-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”), an indirect wholly-owned subsidiary of the Company and HKT Group Holdings Limited (“HKTGH”) and Hong Kong Telecommunications (HKT) Limited (“HKTL”), both being indirect non-wholly owned subsidiaries of the Company. The notes ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

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

(b) US$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect non-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 HKTL and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

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

10. SHORT-TERM BORROWINGS (CONTINUED)

(c) Bank borrowings

The bank borrowings as at December 31, 2014 mainly represented certain loans matured in 2015. The Group has refinanced such borrowings with long-term borrowings.

11. 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	18,835	**20,077**
- over five years	5,861	**14,469**
	36,494	**38,090**
Representing:		
US$500 million 4.25% guaranteed notes due 2016 (note (a))	3,924	**–**
US$300 million 5.75% guaranteed notes due 2022 (note (b))	2,167	**2,194**
US$500 million 3.75% guaranteed notes due 2023 (note (c))	3,694	**3,711**
US$300 million zero coupon guaranteed notes due 2030 (note (d))	–	**2,308**
US$500 million 3.625% guaranteed notes due 2025 (note (e))	–	**3,821**
€200 million 1.65% guaranteed notes due 2027 (note (f))	–	**1,666**
US$100 million zero coupon guaranteed notes due 2030 (note (g))	–	**769**
Bank borrowings	26,709	**23,621**
	36,494	**38,090**
Secured	–	**–**
Unsecured	36,494	**38,090**

(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 10(b) for more details.

(b) US$300 million 5.75% guaranteed notes due 2022

On April 17, 2012, PCCW Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

(c) US$500 million 3.75% guaranteed notes due 2023

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

11. LONG-TERM BORROWINGS (CONTINUED)

(d) US$300 million zero coupon guaranteed notes due 2030

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

(e) US$500 million 3.625% guaranteed notes due 2025

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

(f) €200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect non-wholly owned subsidiary of the Company, issued **€**200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

(g) US$100 million zero coupon guaranteed notes due 2030

On May 20, 2015, PCCW Capital No. 5 Limited, a direct wholly-owned subsidiary of the Company, issued US$100 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

12. SHARE CAPITAL

	Year ended December 31,			
	2014		**2015**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1,	7,272,294,654	1,818	**7,453,177,661**	**11,720**
Shares issued in lieu of cash dividends *(note (a))*	170,883,007	756	**168,173,018**	**785**
Shares issued for share award scheme *(note (b))*	10,000,000	–	**–**	**–**
Transfer from share premium account and capital redemption reserve account upon transition to no-par value regime on March 3, 2014 *(note (c))*	–	9,146	**–**	**–**
As at December 31,	7,453,177,661	11,720	**7,621,350,679**	**12,505**

(a) During the year ended December 31, 2015, the Company issued and allotted 96,011,595 and 72,161,423 new fully paid shares at an average price of HK$5.088 and HK$4.096 per share respectively to the shareholders who elected to receive shares in lieu of cash for 2014 final dividend and 2015 interim dividend pursuant to the respective scrip dividend schemes.

During the year ended December 31, 2014, the Company issued and allotted 114,240,694 and 56,642,313 new fully paid shares at an average price of HK$4.148 and HK$4.988 per share respectively to the shareholders who elected to receive shares in lieu of cash for 2013 final dividend and 2014 interim dividend pursuant to the respective scrip dividend schemes.

(b) During the year ended December 31, 2014, the Company issued and allotted 10,000,000 new fully paid shares at HK$0.01 per share under general mandate for grant of awards pursuant to the share award scheme.

(c) 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 and the capital redemption reserve account has become part of the Company's share capital.

As at the date of this announcement, the Directors are as follows:

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

Non-Executive Directors
Sir David Ford, KBE, LVO; Tse Sze Wing, Edmund, GBS; Lu Yimin (Deputy Chairman); Li Fushen; Zhang Junan and Wei Zhe, David

Independent Non-Executive Directors
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP; Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert and David Christopher Chance

Forward-Looking Statements

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