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, 2017

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, 2017.

- Core revenue (excluding Mobile handset sales) was steady at HK$34,526 million
- Core revenue decreased by 3% to HK$36,886 million

- Consolidated revenue (excluding Mobile handset sales) was steady at HK$34,690 million
- Consolidated revenue decreased by 3% to HK$37,050 million

- Core EBITDA increased by 3% to HK$12,886 million
- Consolidated EBITDA increased by 3% to HK$12,611 million

- Core profit attributable to equity holders of the Company increased by 7% to HK$2,561 million
- Consolidated profit attributable to equity holders of the Company increased by 10% to HK$2,246 million

- Basic earnings per share amounted to 29.15 HK cents

- Final dividend of 21.18 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 and core profit attributable to equity holders of the Company refers to consolidated EBITDA and consolidated profit attributable to equity holders of the Company excluding PCPD.

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a satisfactory set of financial results for the year ended December 31, 2017 underpinned by the business resilience and operational efficiency improvements at HKT Limited ("HKT") as well as steady progress in the Media and Solutions businesses.

HKT recorded sustained growth in the Telecommunications Services ("TSS") segment and a steady performance in the Mobile segment while Mobile handset sales declined. The Solutions, over-the-top ("OTT") media and Free TV businesses demonstrated continued growth momentum although this was partially offset by the softer average revenue per user ("ARPU") on the back of retention efforts at Now TV. As such, core revenue decreased by 3% to HK$36,886 million.

The solid growth in EBITDA for both HKT and the Solutions businesses contributed to the overall 3% growth in core EBITDA to HK$12,886 million for the year ended December 31, 2017, despite our continued investments in the OTT and Free TV segments of the Media business.

The projects at PCPD are progressing as planned and are expected to contribute to the Group in the coming years. Consolidated revenue for the year ended December 31, 2017 decreased by 3% to HK$37,050 million and consolidated EBITDA increased by 3% to HK$12,611 million.

During the year, PCCW disposed of its non-core wireless broadband business in the United Kingdom ("UKBB") and recognized a gain on disposal. After accounting for the reduction in PCCW's attributable interest in HKT following the placement of an approximate 11% interest, consolidated profit attributable to equity holders of the Company increased by 10% to HK$2,246 million. Basic earnings per share were 29.15 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 21.18 HK cents per ordinary share for the year ended December 31, 2017.

OUTLOOK

PCCW has been able to progress its businesses in accordance with our plans in the past year. The Group successfully completed a number of strategic activities, including PCCW's partial sell down of its stake in HKT, the introduction of strategic and financial investors to the OTT Media business and the divestment of UKBB which all contributed to the strengthening of the Group's overall capital structure and unlocking value within the Group.

This year, Now TV will seek to further enhance the viewing experience with richer content and more on-demand programming to capture the online and on-the-go viewing segments. Our exclusivity in broadcasting the 2018 FIFA World Cup Russia™ on both pay TV and free TV is a testimony to our capability of leveraging multiple platforms in delivering the best content to our customers.

Consolidating its early success in the regional markets, our OTT business aims to further enlarge market penetration and drive subscriptions through cooperation with local telecom companies and distribution partners. We will use analytics to bring viewers the best combination of content tailored to local tastes and Viu Original productions.

PCCW Solutions will continue to look for opportunities in the Southeast Asian markets in which it has made inroads in the past year. This will complement its presence in Hong Kong and mainland China.

On telecommunications, we are also confident that HKT, having withstood very challenging market conditions in 2017, will continue to use its strengths in infrastructure and innovation to grow its businesses.

In 2018, we will focus on maintaining our leadership in the respective markets while nurturing new business opportunities.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	2017 H1	2017 H2	2017 Full Year	Better/(Worse) y-o-y
Revenue							
HKT	16,388	17,459	**33,847**	15,649	17,609	**33,258**	(2)%
HKT (excluding Mobile handset sales)	14,611	15,811	**30,422**	14,622	16,276	**30,898**	2%
Mobile handset sales	1,777	1,648	**3,425**	1,027	1,333	**2,360**	(31)%
Now TV Business	1,391	1,509	**2,900**	1,350	1,397	**2,747**	(5)%
Free TV Business	52	108	**160**	94	91	**185**	16%
OTT Business	271	312	**583**	337	381	**718**	23%
Solutions Business	1,587	2,235	**3,822**	1,685	2,317	**4,002**	5%
Other Businesses	30	30	**60**	30	-	**30**	(50)%
Eliminations	(1,310)	(1,852)	**(3,162)**	(1,569)	(2,485)	**(4,054)**	(28)%
Core revenue	18,409	19,801	**38,210**	17,576	19,310	**36,886**	(3)%
PCPD	115	59	**174**	107	57	**164**	(6)%
Consolidated revenue	18,524	19,860	**38,384**	17,683	19,367	**37,050**	(3)%
Cost of sales	(8,494)	(9,249)	**(17,743)**	(7,961)	(8,896)	**(16,857)**	5%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(4,421)	(3,994)	**(8,415)**	(4,089)	(3,493)	**(7,582)**	10%
EBITDA[1]							
HKT	5,865	6,819	**12,684**	5,968	7,029	**12,997**	2%
Now TV Business	184	229	**413**	154	233	**387**	(6)%
Free TV Business	(68)	(115)	**(183)**	(116)	(128)	**(244)**	(33)%
OTT Business	(109)	(126)	**(235)**	(125)	(129)	**(254)**	(8)%
Solutions Business	254	507	**761**	263	584	**847**	11%
Other Businesses	(304)	(408)	**(712)**	(304)	(348)	**(652)**	8%
Eliminations	(92)	(130)	**(222)**	(91)	(104)	**(195)**	12%
Core EBITDA[1]	5,730	6,776	**12,506**	5,749	7,137	**12,886**	3%
PCPD	(121)	(159)	**(280)**	(116)	(159)	**(275)**	2%
Consolidated EBITDA[1]	5,609	6,617	**12,226**	5,633	6,978	**12,611**	3%
Core EBITDA[1] Margin	*31%*	*34%*	***33%***	*33%*	*37%*	***35%***	
Consolidated EBITDA[1] Margin	*30%*	*33%*	***32%***	*32%*	*36%*	***34%***	
Depreciation	(860)	(914)	**(1,774)**	(851)	(791)	**(1,642)**	7%
Amortization	(2,348)	(2,580)	**(4,928)**	(2,550)	(2,536)	**(5,086)**	(3)%
Gain/(Loss) on disposal of property, plant and equipment, net	2	1	**3**	(8)	(4)	**(12)**	n/a
Other (losses)/gains, net	(53)	85	**32**	1,190	11	**1,201**	>500%
Interest income	27	25	**52**	58	76	**134**	158%
Finance costs	(627)	(802)	**(1,429)**	(790)	(736)	**(1,526)**	(7)%
Share of results of associates and joint ventures	19	26	**45**	(35)	89	**54**	20%
Profit before income tax	1,769	2,458	**4,227**	2,647	3,087	**5,734**	36%

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	2016 H1	2016 H2	2016 Full Year	2017 H1	2017 H2	2017 Full Year	Better/ (Worse) y-o-y
HKT Revenue	16,388	17,459	**33,847**	15,649	17,609	**33,258**	(2)%
HKT Revenue (excluding Mobile handset sales)	14,611	15,811	**30,422**	14,622	16,276	**30,898**	2%
Mobile handset sales	1,777	1,648	**3,425**	1,027	1,333	**2,360**	(31)%
HKT EBITDA[1]	5,865	6,819	**12,684**	5,968	7,029	**12,997**	2%
HKT EBITDA[1] margin	*36%*	*39%*	***37%***	*38%*	*40%*	***39%***	
HKT Adjusted Funds Flow	2,051	2,632	**4,683**	2,129	2,783	**4,912**	5%

HKT delivered a solid set of financial results for the year ended December 31, 2017, reflecting the resilience of all of its lines of business as well as continued operating efficiency improvements despite intense industry competition throughout the year.

Total revenue for the year ended December 31, 2017 decreased by 2% to HK$33,258 million due to the lower revenue contribution from Mobile handset sales. Excluding Mobile handset sales, underlying revenue for the year increased by 2% to HK$30,898 million, as compared to HK$30,422 million a year earlier.

Total EBITDA for the year was HK$12,997 million, an increase of 2% over the previous year, underpinned by operating efficiency improvements in both the Mobile and TSS businesses.

Adjusted funds flow for the year ended December 31, 2017 reached HK$4,912 million, an increase of 5% over the previous year.

HKT recommended the payment of a final distribution of 36.75 HK cents per share stapled unit for the year ended December 31, 2017. This brings the 2017 full-year distribution to 64.87 HK cents per share stapled unit, representing the full payout of the annual adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2017 annual results announcement released on February 6, 2018.

Now TV Business

For the year ended December 31, HK$ million	**2016**			**2017**			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
Now TV Business Revenue	1,391	1,509	**2,900**	1,350	1,397	**2,747**	(5)%
Now TV Business EBITDA[1]	184	229	**413**	154	233	**387**	(6)%
Now TV *Business EBITDA[1] margin*	*13%*	*15%*	***14%***	*11%*	*17%*	***14%***	

Leveraging its strong content offering and high quality viewing experience, Now TV successfully stabilized its installed base at 1,301,000 at the end of the year with an exit ARPU of HK$179, lower than the exit ARPU of HK$192 twelve months prior. Revenue was also impacted by the shift in advertising spending to other platforms, including OTT as well as our own free TV service. As a result, revenue for the Now TV business for the year ended December 31, 2017 softened by 5% to HK$2,747 million from HK$2,900 million a year ago.

However, there was a marked improvement in the EBITDA margin from 11% in the first half of 2017 to 17% in the second half of 2017, reflecting successful efforts by Now TV to rationalize its content costs as the competition environment turned more benign. As a result, EBITDA for the year ended December 31, 2017 was HK$387 million, as compared to HK$413 million a year ago.

Now TV will continue to maintain its status as the leading provider of high quality, premium content including exclusive top tier sports events such as the 2018 FIFA World Cup Russia™, while continuously improving its customer experience and engagement.

Free TV Business

For the year ended December 31, HK$ million	2016			2017			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
Free TV Business Revenue	52	108	**160**	94	91	**185**	16%
Free TV Business EBITDA[1]	(68)	(115)	**(183)**	(116)	(128)	**(244)**	(33)%

Revenue at the Free TV business grew by 16% to HK$185 million for the year ended December 31, 2017 from HK$160 million a year ago. Despite the entrance of a new player, revenue growth was driven by further investments in self-produced local programs, including dramas which attracted local viewership as well as overseas distribution. The launch of the new English channel ViuTVsix in March 2017 also contributed to the revenue growth.

Due to the continued investments in content and the launch of ViuTVsix, the EBITDA loss was HK$244 million for the year ended December 31, 2017, compared to an EBITDA loss of HK$183 million a year ago.

ViuTV will continue to produce dramas as well as its signature factual entertainment programs to address not only local but also audiences overseas. ViuTV will also be broadcasting selected matches during the 2018 FIFA World Cup Russia™, offering free access to a world-class event for the Hong Kong public.

OTT Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	2017 H1	2017 H2	2017 Full Year	Better/ (Worse) y-o-y
OTT Business Revenue	271	312	**583**	337	381	**718**	23%
OTT Business EBITDA[1]	(109)	(126)	**(235)**	(125)	(129)	**(254)**	(8)%

Revenue for the OTT business, comprising both our OTT video and music services, grew significantly by 23% to HK$718 million for the year ended December 31, 2017, from HK$583 million a year ago. This rapid growth was driven by the expansion in the monthly active user base to 16.3 million as a result of the continued take-up of our OTT services in existing and new markets. Our OTT services are now available in 27 markets across Asia, the Middle East and Africa compared to 18 markets a year ago.

The OTT business operates a freemium model generating revenue from both subscription services as well as advertising which, during the year, represented 75% and 25% respectively of the total revenue for the year ended December 31, 2017. This mix reflects the premium, locally relevant content that users are willing to pay for as well as the high engagement and broad viewership that is attracting advertisers to our OTT platform.

The longer form premium Viu service has recorded over 1.8 billion cumulative video views since its launch in 2015 with users consuming, on average, over 17 videos per week. In Hong Kong, Singapore, Malaysia, Indonesia, the Philippines and Thailand, users spend approximately 1 – 2 hours watching content on Viu per day. These encouraging viewership statistics were underpinned by an expanding library of self-produced and co-produced original content, the Viu Original programming.

Due to our investments in content, user acquisitions and new market launches, the OTT business recorded an EBITDA loss of HK$254 million for the year ended December 31, 2017, which widened only slightly from the EBITDA loss of HK$235 million a year ago.

During the year, the OTT business received an investment of US$110 million (equivalent to approximately HK$859 million) from a group of strategic and financial investors to support the further development of the business including content development and user acquisition.

Solutions Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	2017 H1	2017 H2	2017 Full Year	Better/ (Worse) y-o-y
Solutions Business Revenue	1,587	2,235	**3,822**	1,685	2,317	**4,002**	5%
Solutions Business EBITDA[1]	254	507	**761**	263	584	**847**	11%
Solutions Business EBITDA[1] margin	*16%*	*23%*	***20%***	*16%*	*25%*	***21%***	

The Solutions business recorded a 5% increase in revenue to HK$4,002 million for the year ended December 31, 2017, from HK$3,822 million a year ago. This increase in revenue was attributable to the delivery of business transformation services for enterprise customers and large scale, mission critical projects in the public sector.

During the year, the Solutions business successfully executed landmark projects for the HKSAR Government such as the Immigration Department which contributed to the increase in the proportion of revenue contribution from the Public Sector to 26% for the year ended December 31, 2017 from 24% a year ago.

For the year ended December 31, 2017, the Solutions business also provided highly reliable data center services to a number of large High-Tech & Media customers to support their regional growth, leading to a revenue contribution increase in the High-Tech & Media sector from 8% a year ago to 10% and an increase in the Digital, Cloud Solutions & Infrastructure sector from 28% to 33%.

The higher margin and recurring nature of cloud and infrastructure solutions drove the contribution of recurring revenue up by 11% and for the year ended December 31, 2017, represented 59% of the total revenue. These solutions also contributed to the EBITDA margin improvement to 21%. For the year ended December 31, 2017, EBITDA increased by 11% to HK$847 million from HK$761 million a year ago.

The Solutions business had secured orders with a value of HK$7,359 million as at December 31, 2017, an increase of 12% from twelve months ago. Significant wins included the Hong Kong Next Generation Electronic Passport System project for the Immigration Department and the provision of data center services to support a number of global cloud service providers.

PCPD

PCPD recorded total revenue of HK$164 million and an EBITDA loss of HK$275 million for the year ended December 31, 2017, compared with total revenue of HK$174 million and an EBITDA loss of HK$280 million a year earlier.

Pacific Century Place ("PCP") Jakarta, PCPD's premium office building in Jakarta, Indonesia, was substantially completed and in operation in the fourth quarter. Citibank Indonesia, Sotheby's Hong Kong Limited, and Garena have begun to move in gradually. The leasing of the office space is progressing well and we expect the building to generate stable recurring rental income for PCPD.

PCPD continued to witness a rising number of tourists visiting Hokkaido and the Japanese government is also poised to strengthen its marketing efforts to boost the tourism industry over the next few years. PCPD will make the best of this opportunity and launch the remaining units of the Park Hyatt Hotel and Branded Residences in the next two years.

PCPD's recently announced redevelopment project at Nos. 3-6 Glenealy, Central, is expected to become another landmark project of PCPD.

For a more detailed review of the performance of PCPD, please refer to its 2017 annual results announcement released on February 5, 2018.

Other Businesses

Other Businesses primarily comprises corporate support functions and UKBB. Revenue from Other Businesses was HK$30 million for the year ended December 31, 2017 (2016: HK$60 million), which was primarily generated by UKBB up until its disposal in May 2017. The EBITDA cost of the Group's Other Businesses was HK$652 million in 2017 (2016: HK$712 million), of which HK$49 million was associated with UKBB.

The Group disposed of UKBB for an aggregate consideration of GBP300 million (equivalent to approximately HK$3,011 million) of which GBP250 million (equivalent to approximately HK$2,509 million) was paid in cash.

Eliminations

Eliminations for the year ended December 31, 2017 were HK$4,054 million (2016: HK$3,162 million). This continues to reflect the growing collaboration amongst various business segments of the Group to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers. It also represented intragroup system upgrading work carried out by the Solutions business to deliver the next generation customer management system to enable HKT to deliver a better customer experience.

Costs

Cost of Sales

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	2017 H1	2017 H2	2017 Full Year	Better/ (Worse) y-o-y
HKT	6,973	7,472	**14,445**	6,508	7,653	**14,161**	2%
The Group (excluding PCPD)	8,457	9,230	**17,687**	7,936	8,884	**16,820**	5%
Consolidated	8,494	9,249	**17,743**	7,961	8,896	**16,857**	5%

HKT's cost of sales for the year ended December 31, 2017 decreased by 2% to HK$14,161 million reflecting lower Mobile handset sales during the year. Gross margin for HKT was stable at 57%.

Cost of sales for the core businesses decreased by 5%. Gross margin for the core businesses was stable at 54%.

The Group's consolidated total cost of sales for the year ended December 31, 2017 decreased by 5% to HK$16,857 million.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") decreased by 10% to HK$7,582 million as a result of the full year impact of the cost synergies from the integration of CSL Holdings Limited ("CSL") and continued improvement in operating efficiencies at HKT in areas such as cell site rental, third-party backhaul, call center integration, and publicity and promotion. The benefits were offset by additional investments in the Media business to support the growth of the OTT and Free TV businesses. As a result, the operating costs to revenue ratio declined to 20% from 22% a year ago.

Depreciation and amortization expenses remained stable at HK$6,728 million for the year ended December 31, 2017. Depreciation expenses declined by 7% during the year as a result of the Group's periodic review of the useful lives of its network assets. Amortization expenses increased by 3% largely arising from increased investments in content at the OTT and Free TV businesses in the Media segment. Content related amortization for the year was HK$528 million, as compared to HK$396 million a year ago.

General and administrative expenses, therefore, decreased by 5% to HK$14,322 million for the year ended December 31, 2017.

EBITDA[1]

Core EBITDA for the year ended December 31, 2017 increased by 3% to HK$12,886 million, mainly driven by the 5% growth in Mobile Services EBITDA at HKT and the 11% increase in the Solutions business. Accordingly, the core EBITDA margin improved to 35% from 33% a year ago. Consolidated EBITDA also increased by 3% to HK$12,611 million for the year with the margin improving to 34%.

Other Gains, net

Net other gains of HK$1,201 million were recorded for the year ended December 31, 2017, as compared to HK$32 million a year ago, predominantly as a result of the gain recognized from the disposal of UKBB that was completed in May 2017.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2017 increased to HK$134 million as a result of the increased cash balances of the Group. Finance costs increased by 7% to HK$1,526 million as a result of increased borrowings at HKT and at PCPD to provide funds to support ongoing and future development projects. These increases were offset by the substantial reduction in bank borrowings at the PCCW level during the year. As a result, net finance costs were relatively stable at HK$1,392 million for the year ended December 31, 2017 compared to HK$1,377 million in 2016.

The average cost of debt was 3.0% in 2017, as compared to 2.7% a year ago reflecting the increased proportion of fixed rate borrowings.

Income Tax

Income tax expense for the year ended December 31, 2017 was HK$1,134 million, as compared to HK$395 million a year ago, representing an effective tax rate of 20% for the year. There was higher tax expense at HKT due to the increase in taxable profits, the full utilization of the tax loss of a company in 2016 resulting from the CSL integration and a one-time non-cash charge due to a reassessment of deferred income tax assets associated with the enactment of the 2017 tax reform legislation in the United States.

The income tax expense at the PCCW level increased as a result of higher profits at the Solutions business and the impact of the 2017 tax reform legislation in the United States. The increase also reflected the recognition of a deferred income tax asset on tax losses in 2016.

Non-controlling Interests

Non-controlling interests were HK$2,354 million for the year ended December 31, 2017 (2016: HK$1,781 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD. The increase in non-controlling interests is mainly driven by the higher free float following PCCW's partial sell-down of its stake in HKT and an increase in profits at HKT.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2017 increased by 10% to HK$2,246 million (2016: HK$2,051 million).

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.

In February 2017, the Group placed 840,747,000 share stapled units of HKT Trust and HKT ("Share Stapled Units") at a price of HK$10.15 per share stapled unit, raising approximately HK$8,361 million in net proceeds. In May 2017, the Group disposed of UKBB. Net cash proceeds of approximately HK$2,393 million was received. The Group used a portion of these proceeds to repay a portion of bank borrowings at the PCCW level leaving primarily long term bonds in the capital structure. In September 2017, the OTT business received net cash proceeds of US$110 million (equivalent to approximately HK$859 million) from a group of investors.

In March 2017, PCPD took advantage of a favorable market window and raised US$570 million 5-year guaranteed notes at a coupon of 4.75%. The proceeds are to support ongoing and future property developments including the current projects in Hokkaido, Japan and Jakarta, Indonesia.

The Group's gross debt[2] was HK$47,580 million as at December 31, 2017 (December 31, 2016: HK$46,428 million). Cash and short-term deposits totaled HK$13,267 million as at December 31, 2017 (December 31, 2016: HK$5,210 million). At PCCW (excluding HKT and PCPD), there was a net cash position of HK$2,206 million as at December 31, 2017.

As at December 31, 2017, the Group had a total of HK$37,851 million in committed bank loan facilities available for liquidity management, of which HK$15,492 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,381 million, of which HK$5,698 million remained undrawn.

The Group's gross debt[2] to total assets was 52% as at December 31, 2017 (December 31, 2016: 58%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2017, 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, 2017 was HK$3,410 million (2016: HK$3,227 million), of which HKT accounted for about 78% (2016: 89%). Capital expenditure at HKT declined as the CSL integration was completed in 2016 and shifted towards increased investments to meet the higher demand for HKT's fiber broadband and IoT related services, customized network solutions for enterprises and continued submarine cable investments for the International business. There was an increase in capital expenditure by the Media business largely for upgrading its production studio facilities as well as an increase in capital expenditure by the Solutions business to expand its data center capacity to fulfill existing demand. There was also an increase in capital expenditure at PCPD to support the construction of PCP Jakarta, an office building and the Park Hyatt Hotel and Branded Residences project and the ski operation in Hokkaido, Japan.

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2017, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

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

CHARGE ON ASSETS

As at December 31, 2017, certain assets of the Group with an aggregate carrying value of HK$1,128 million (2016: HK$3,373 million) were pledged to secure certain bank loan facilities of the Group. As at December 31, 2016, performance guarantee of approximately HK$161 million received in relation to the construction of the premium office building in Jakarta, Indonesia was pledged for certain bank loan facilities. This pledge was released during the year ended December 31, 2017.

CONTINGENT LIABILITIES

As at December 31, **HK$ million**	2016	**2017**
Performance guarantees	923	**572**
Others	76	**130**
	999	**702**

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 24,000 employees as at December 31, 2017 (2016: 25,000) located in over 46 countries and cities. About 63% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 21.18 HK cents (2016: 20.17 HK cents) per ordinary share for the year ended December 31, 2017 to shareholders whose names appear on the register of members of the Company on Thursday, May 17, 2018, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 10, 2018 ("AGM"). An interim dividend of 8.57 HK cents (2016: 8.16 HK cents) per ordinary share for the six months ended June 30, 2017 was paid to shareholders of the Company in October 2017.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Thursday, May 17, 2018. The Company's register of members will be closed from Wednesday, May 16, 2018 to Thursday, May 17, 2018 (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 15, 2018. Subject to the approval of shareholders of the Company at the AGM, dividend warrants will be despatched to shareholders on or around Friday, June 8, 2018.

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 Friday, May 4, 2018. 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 Friday, May 4, 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2017, 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, 2017.

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 its 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 in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended December 31, 2017.

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 2017 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
Bernadette M. Lomas
Group General Counsel and Company Secretary

Hong Kong, February 7, 2018

AUDITED CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2017

In HK$ million (except for earnings per share)	Note	2016	**2017**
Revenue	2	38,384	**37,050**
Cost of sales		(17,743)	**(16,857)**
General and administrative expenses		(15,114)	**(14,322)**
Other gains, net	3	32	**1,201**
Interest income		52	**134**
Finance costs		(1,429)	**(1,526)**
Share of results of associates		66	**83**
Share of results of joint ventures		(21)	**(29)**
Profit before income tax	2, 4	4,227	**5,734**
Income tax	5	(395)	**(1,134)**
Profit for the year		3,832	**4,600**
Attributable to:			
Equity holders of the Company		2,051	**2,246**
Non-controlling interests		1,781	**2,354**
Profit for the year		3,832	**4,600**
Earnings per share	7		
Basic		26.79 cents	**29.15 cents**
Diluted		26.76 cents	**29.12 cents**

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2017

In HK$ million	2016	**2017**
Profit for the year	3,832	**4,600**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	(26)	**38**
	(26)	**38**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	(165)	**323**
- reclassification of currency translation reserve on disposal of subsidiaries	–	**172**
Available-for-sale financial assets:		
- changes in fair value	(7)	**106**
- transfer to consolidated income statement on impairment/(disposal)	14	**(9)**
Cash flow hedges:		
- effective portion of changes in fair value	787	**(330)**
- transfer from equity to consolidated income statement	47	**(338)**
	676	**(76)**
Other comprehensive income for the year	650	**(38)**
Total comprehensive income for the year	4,482	**4,562**
Attributable to:		
Equity holders of the Company	2,434	**2,384**
Non-controlling interests	2,048	**2,178**
Total comprehensive income for the year	4,482	**4,562**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

In HK$ million				(Additional information)	
		The Group		The Company	
	Note*	2016	**2017**	2016	**2017**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		19,701	**21,681**	–	**–**
Investment properties		3,216	**3,744**	–	**–**
Interests in leasehold land		422	**404**	–	**–**
Properties held for/under development		924	**1,188**	–	**–**
Goodwill		18,095	**18,128**	–	**–**
Intangible assets		11,982	**12,726**	–	**–**
Interests in subsidiaries		–	**–**	17,072	**17,792**
Interests in associates		725	**719**	–	**–**
Interests in joint ventures		628	**592**	–	**–**
Available-for-sale financial assets		1,057	**2,021**	–	**–**
Derivative financial instruments		289	**225**	12	**2**
Deferred income tax assets		1,134	**1,213**	–	**–**
Other non-current assets		897	**1,019**	–	**–**
		59,070	**63,660**	17,084	**17,794**
Current assets					
Amounts due from subsidiaries		–	**–**	21,281	**12,746**
Sales proceeds held in stakeholders’ accounts		510	**508**	–	**–**
Restricted cash		139	**149**	–	**–**
Prepayments, deposits and other current assets		9,019	**9,556**	19	**16**
Inventories		943	**911**	–	**–**
Amounts due from related companies		98	**86**	–	**–**
Derivative financial instruments		–	**1**	–	**1**
Other financial assets		–	**79**	–	**–**
Trade receivables, net	8	3,778	**3,664**	–	**–**
Tax recoverable		16	**19**	–	**–**
Short-term deposits		453	**1,629**	–	**160**
Cash and cash equivalents		4,751	**11,638**	587	**4,364**
		19,707	**28,240**	21,887	**17,287**
Assets of disposal group classified as held for sale		807	**–**	–	**–**
		20,514	**28,240**	21,887	**17,287**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at December 31, 2017

In HK$ million				(Additional information)	
		The Group		The Company	
	Note*	2016	**2017**	2016	**2017**
Current liabilities					
Short-term borrowings		(457)	**(622)**	–	**–**
Trade payables	9	(2,731)	**(2,088)**	–	**–**
Accruals and other payables		(6,844)	**(7,569)**	(11)	**(10)**
Amount payable to the Government under the Cyberport Project Agreement		(321)	**(321)**	–	**–**
Derivative financial instruments		–	**(15)**	–	**–**
Carrier licence fee liabilities		(173)	**(173)**	–	**–**
Amounts due to related companies		(35)	**(1)**	–	**–**
Advances from customers		(2,160)	**(2,588)**	–	**–**
Current income tax liabilities		(1,327)	**(1,438)**	–	**–**
		(14,048)	**(14,815)**	(11)	**(10)**
Liabilities of disposal group classified as held for sale		(36)	**–**	–	**–**
		(14,084)	**(14,815)**	(11)	**(10)**
Non-current liabilities					
Long-term borrowings	10	(45,131)	**(46,613)**	(3,978)	**–**
Amounts due to subsidiaries		–	**–**	(3,024)	**(3,100)**
Derivative financial instruments		(98)	**(282)**	(84)	**(104)**
Deferred income tax liabilities		(2,916)	**(3,233)**	–	**–**
Deferred income		(1,071)	**(1,381)**	–	**–**
Defined benefit retirement schemes liability		(154)	**(105)**	–	**–**
Carrier licence fee liabilities		(544)	**(455)**	–	**–**
Other long-term liabilities		(810)	**(1,811)**	–	**–**
		(50,724)	**(53,880)**	(7,086)	**(3,204)**
Net assets		14,776	**23,205**	31,874	**31,867**
CAPITAL AND RESERVES					
Share capital	11	12,954	**12,954**	12,954	**12,954**
Reserves		(928)	**6,987**	18,920	**18,913**
Equity attributable to equity holders of the Company		12,026	**19,941**	31,874	**31,867**
Non-controlling interests		2,750	**3,264**	–	**–**
Total equity		14,776	**23,205**	31,874	**31,867**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2017 and 2016 is presented only as additional information to these consolidated financial statements.

NOTES

1. BASIS OF PREPARATION

(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, 2016, except for the adoption of the following amended Hong Kong Financial Reporting Standards, which are relevant to the Group's operation and are effective for accounting periods beginning on or after January 1, 2017. The Hong Kong Financial Reporting Standards include all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

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

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

The Group has not early adopted any new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period.

The financial information relating to the years ended December 31, 2017 and 2016 included in this preliminary announcement of annual results for the year ended December 31, 2017 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, 2016 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) and will deliver the financial statements for the year ended December 31, 2017 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 (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. Management has also made judgements in applying the Group's accounting policies.

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, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

- Media Business includes interactive pay-TV services, Internet portal digital media entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world. The Group also operates a domestic free television service in Hong Kong.

- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong and other parts of Greater China and Asia.

- Pacific Century Premium Developments Limited ("PCPD") covers the Group's development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

- Other Businesses primarily comprises corporate support functions, and the Group's wireless broadband business in the United Kingdom (until May 2017 when the Group completed the disposal of its entire interest in the wireless broadband business in the United Kingdom).

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

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

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, 2016
(In HK$ million)

	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
Total Revenue	33,847	3,643	3,822	60	174	(3,162)	38,384
RESULTS							
EBITDA	12,684	(5)	761	(712)	(280)	(222)	12,226

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

	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
Total Revenue	**33,258**	**3,650**	**4,002**	**30**	**164**	**(4,054)**	**37,050**
RESULTS							
EBITDA	**12,997**	**(111)**	**847**	**(652)**	**(275)**	**(195)**	**12,611**

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

In HK$ million	2016	**2017**
Total segment EBITDA	12,226	**12,611**
Gain/(loss) on disposal of property, plant and equipment, net	3	**(12)**
Depreciation and amortization	(6,702)	**(6,728)**
Other gains, net	32	**1,201**
Interest income	52	**134**
Finance costs	(1,429)	**(1,526)**
Share of results of associates and joint ventures	45	**54**
Profit before income tax	4,227	**5,734**

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 that the Group derives revenue from customers.

In HK$ million	2016	**2017**
Hong Kong (place of domicile)	32,272	**30,848**
Mainland China, Macau and Taiwan, China	1,284	**970**
Others	4,828	**5,232**
	38,384	**37,050**

As at December 31, 2017, the total non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong are HK$48,833 million (2016: HK$46,760 million), and the total of these non-current assets located in other countries are HK$11,231 million (2016: HK$9,673 million).

3. OTHER GAINS, NET

In HK$ million	2016	**2017**
Gain on disposal of subsidiaries (note 12)	–	**1,236**
Fair value gains on investment properties	2	**–**
Net gains on fair value hedging instruments	4	**–**
Fair value movement of derivative financial instruments	(60)	**1**
Provision for impairment of available-for-sale financial assets	(19)	**–**
Net realized gains on disposal of available-for-sale financial assets	106	**68**
Dividend income from available-for-sale financial assets	–	**38**
Provision for impairment of interests in associates	–	**(154)**
Reversal of provision for impairment of an interest in a joint venture	–	**5**
Others	(1)	**7**
	32	**1,201**

4. PROFIT BEFORE INCOME TAX

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

In HK$ million	2016	**2017**
Crediting:		
Gain on disposal of property, plant and equipment, net	3	**–**
Charging:		
Provision for inventory obsolescence	4	**16**
Depreciation of property, plant and equipment	1,774	**1,642**
Amortization of land lease premiums – interests in leasehold land	20	**18**
Amortization of intangible assets	4,908	**5,068**
Cost of inventories sold	4,698	**3,767**
Cost of sales, excluding inventories sold	13,045	**13,090**
Loss on disposal of property, plant and equipment, net	–	**12**
Interest on borrowings	1,285	**1,469**

5. INCOME TAX

In HK$ million	2016	**2017**
Hong Kong profits tax	485	**834**
Overseas tax	104	**58**
Movement of deferred income tax	(194)	**242**
	395	**1,134**

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

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

6. DIVIDENDS

In HK$ million	2016	**2017**
Interim dividend declared and paid in respect of current year of 8.57 HK cents (2016: 8.16 HK cents) per ordinary share	629	**662**
Less: dividend for shares held by share award schemes	(1)	**(1)**
	628	**661**
Final dividend declared in respect of previous financial year, approved and paid during the year of 20.17 HK cents (2016: 17.04 HK cents *(note (b))*) per ordinary share	1,299	**1,557**
Less: dividend for shares held by share award schemes	(1)	**(4)**
	1,298	**1,553**
	1,926	**2,214**
Final dividend proposed after the end of the reporting period of 21.18 HK cents (2016: 20.17 HK cents) per ordinary share	1,557	**1,635**

(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) For details of shares issued and allotted in lieu of cash dividends for the year ended December 31, 2016, please refer to note 11(a).

7. EARNINGS PER SHARE

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

	2016	**2017**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	2,051	**2,246**
Number of shares		
Weighted average number of ordinary shares	7,670,021,895	**7,719,638,249**
Effect of shares held under the Company's share award schemes	(13,204,717)	**(14,712,266)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,656,817,178	**7,704,925,983**
Effect of shares awarded under the Company's share award schemes	8,477,779	**9,065,515**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,665,294,957	**7,713,991,498**

8. TRADE RECEIVABLES, NET

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

In HK$ million	2016	**2017**
1 – 30 days	2,276	**2,366**
31 – 60 days	510	**410**
61 – 90 days	324	**248**
91 – 120 days	223	**205**
Over 120 days	717	**692**
	4,050	**3,921**
Less: Impairment loss for doubtful debts	(272)	**(257)**
	3,778	**3,664**

Included in trade receivables, net are amounts due from related parties of HK$55 million (2016: HK$37 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 balances 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	2016	**2017**
1 – 30 days	1,664	**1,393**
31 – 60 days	155	**143**
61 – 90 days	86	**43**
91 – 120 days	36	**47**
Over 120 days	790	**462**
	2,731	**2,088**

Included in trade payables are amounts due to related parties of HK$43 million (2016: HK$58 million).

10. LONG-TERM BORROWINGS

On March 9, 2017, PCPD Capital Limited, an indirect non-wholly owned subsidiary of the Company, issued US$570 million 4.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited.

11. SHARE CAPITAL

	Year ended December 31,			
	2016		**2017**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1,	7,621,350,679	12,505	**7,719,638,249**	**12,954**
Shares issued in lieu of cash dividends *(note (a))*	88,287,570	449	**–**	**–**
Shares issued for share award scheme *(note (b))*	10,000,000	–	**–**	**–**
As at December 31,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

(a) During the year ended December 31, 2016, the Company issued and allotted 84,268,778 and 4,018,792 new fully paid shares at an average price of HK$5.096 and HK$4.952 per share respectively to the shareholders who elected to receive shares in lieu of cash for the 2015 final dividend and 2016 interim dividend pursuant to the respective scrip dividend schemes.

(b) During the year ended December 31, 2016, the Company issued and allotted 10,000,000 new fully paid shares at HK$0.01 per share under general mandate for the grant of awards pursuant to the share award scheme.

12. DISPOSAL OF INTERESTS IN SUBSIDIARIES

As at December 31, 2016, the assets and liabilities related to Transvision Investments Limited ("Transvision"), an indirect wholly-owned subsidiary of the Company, and its subsidiaries were presented as held for sale in the Group's consolidated statement of financial position. UK Broadband Limited, a then direct wholly-owned subsidiary of Transvision (together with Transvision, the "Transvision Group"), was engaged in the provision of wireless broadband services in the United Kingdom. The principal assets of UK Broadband Limited were its holding of certain licences for radio frequency spectrum, its wireless networks and related systems, and its customers.

12. DISPOSAL OF INTERESTS IN SUBSIDIARIES (CONTINUED)

On February 6, 2017, the Group entered into a share purchase agreement pursuant to which the Group has agreed to sell the entire issued share capital of Transvision to an independent third party (the "Buyer") for GBP250 million cash (equivalent to approximately HK$2,509 million) and two restricted use credit vouchers issued by the Buyer with a face value of GBP25 million (equivalent to approximately HK$251 million) each upon completion of the sale under the share purchase agreement. The aggregate consideration is subject to possible adjustment in accordance with the terms of the share purchase agreement. The credit vouchers can be applied against specific domestic service charges (excluding value added tax) payable under a corresponding mobile virtual network operator ("MVNO") agreement pursuant to which the Buyer will provide access to capacity on its mobile network. Each credit voucher is transferrable, subject to certain restrictions.

The transaction was completed in May 2017. The fair value of the two credit vouchers was not recognized at the completion of the transaction, and at December 31, 2017, due to the uncertainty of potential market condition and the range of potential value being too wide for an amount to be measured reliably. The value will be assessed in future reporting periods and recognized once an amount can be measured reliably.

The Group has recognized a gain on disposal of HK$1,236 million in the consolidated income statement for the year ended December 31, 2017.

13. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT LOSS OF CONTROL

During the year ended December 31, 2017, the Group completed the placing of 840,747,000 share stapled units of HKT Trust and HKT ("Share Stapled Units") at HK$10.15 per Share Stapled Unit at an aggregate consideration, net of direct expenses, of approximately HK$8,361 million in cash. Accordingly, the Group recognized an increase in non-controlling interests of the HKT Trust, HKT and its subsidiaries of approximately HK$642 million and an increase in equity attributable to the equity holders of the Company of approximately HK$7,719 million. Immediately after the completion of the placing, the Group holds approximately 51.97% of the total number of Share Stapled Units in issue, representing a reduction by approximately 11% from that before the placing.

14. SUBSEQUENT EVENT

As disclosed in the joint announcement of the Company and PCPD dated January 15, 2018 (the "Joint Announcement") in relation to the proposed joint redevelopment of the properties at Nos. 3-6 Glenealy, Central, Hong Kong (the "Properties") by PCPD and its subsidiaries (collectively the "PCPD Group") and CSI Properties Limited, PCPD, through an indirect wholly-owned subsidiary of PCPD (the "Purchaser") will, subject to certain conditions as disclosed in the Joint Announcement, acquire the equity interest of the target group holding the Properties. Under the sale and purchase agreement, the consideration includes cash consideration of HK$2,018 million (subject to adjustments) and the allotment and issue of the non-voting participating share which is entitled to 50% of the dividends declared or distributions by the Purchaser. An initial deposit of HK$100 million was placed with the stakeholder on January 15, 2018. The transaction is expected to be completed in the first half of 2018. For details, please refer to the Joint Announcement.

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
Tse Sze Wing, Edmund, GBS; Lu Yimin (Deputy Chairman); Li Fushen; Shao Guanglu 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; David Christopher Chance and David Lawrence Herzog

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.