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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, 2019

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, 2019.

- Consolidated revenue decreased by 3% to HK$37,521 million
  - Excluding Mobile product sales, up 3% to HK$34,121 million
- Consolidated EBITDA increased by 1% to HK$12,381 million
- Consolidated profit attributable to equity holders of the Company was HK$681 million

- HKT revenue excluding Mobile product sales increased by 1% to HK$29,703 million
- Media business revenue increased by 1% to HK$4,015 million
  - Now TV revenue down 6% to HK$2,685 million
  - OTT revenue up 18% to HK$1,071 million, and
  - Free TV revenue up 27% to HK$259 million
- Solutions business revenue increased by 3% to HK$4,218 million
- PCPD revenue increased by 238% to HK$1,015 million

- Basic earnings per share amounted to 8.83 HK cents

- Final dividend of 23 HK cents per ordinary share resulting in full year dividend of 32.18 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.

Media business includes the Group's Now TV, OTT and Free TV businesses.

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a set of stable financial results for the year ended December 31, 2019. This was achieved in spite of challenging economic conditions in Hong Kong and reflected the resilience of the telecom business and the benefits of expanding the geographic presence of the Media and Solutions businesses.

HKT Limited's ("HKT") revenue excluding Mobile product sales for the year ended December 31, 2019 increased by 1% to HK$29,703 million, underpinned by steady growth in Telecommunications Services ("TSS") and Mobile Services revenue even as competition remained intense. Mobile product sales at HKT remained sluggish reflecting a longer handset replacement cycle especially in view of the impending arrival of 5G handsets and poor consumer sentiment.

Revenue at Now TV eased from 2018 which recorded a one-off contribution due to World Cup and related event passes. Both Free TV and over-the-top ("OTT") businesses maintained their growth momentum with revenue expanding by 27% and 18% respectively from a year ago. The Solutions business revenue increased by 3% to HK$4,218 million on the back of growing contribution from its regional expansion in Southeast Asia and strong data center demand. PCPD recorded 238% growth in revenue to HK$1,015 million with significant growth occurring in the second half of the year as the handover of the Park Hyatt Niseko Hanazono Residences ("Branded Residences") commenced. Consequently, consolidated revenue excluding Mobile product sales increased by 3% to HK$34,121 million.

EBITDA at HKT improved by 2% to HK$12,817 million as a result of continued improvement in operating efficiencies. Overall performance at the Media business improved as the Free TV and OTT businesses narrowed their losses with an inflection point occurring in the second half of the year when it turned EBITDA positive. Solutions business's EBITDA remained stable with continued investment to support its regional expansion. With the contribution from the Branded Residences and other properties in its portfolio, PCPD recorded positive EBITDA in the second half of the year. As a result, PCCW's consolidated EBITDA increased by 1% to HK$12,381 million.

Consolidated profit attributable to equity holders of the Company was HK$681 million. Basic earnings per share was 8.83 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 23 HK cents per ordinary share for the year ended December 31, 2019.

OUTLOOK

Last year, Hong Kong was faced with exceptional social and economic challenges. The longer-term impact on the local economy may only be more apparent in the coming quarters, especially as the city is being hit by the novel coronavirus.

In 2020, the Group will continue to consolidate its advantages and build further strengths across its media entertainment platforms. We aim to further improve the operating efficiency and margin of Now TV. Viu OTT will seek to drive deeper user engagement and capture larger shares in the regional markets, riding on the momentum gained last year. ViuTV will bring in more high quality content and focus on steady growth. We will, however, remain reserved about the outlook of advertising spend in Hong Kong.

With more progress in its regional expansion efforts, PCCW Solutions expects the Southeast Asian markets to make larger contributions going forward. As Hong Kong's leading IT service provider, we stand ready to serve the digital transformation needs of customers in Hong Kong as investment sentiment gradually recovers.

HKT's resilient operations will continue to generate a steady cash flow. 2020 will be an exciting year for HKT as it launches its 5G mobile network and services. In addition to offering a differentiated mobile experience for consumers, 5G will present numerous opportunities for commercial applications.

The Group has a strong business and robust foundation in Hong Kong. We will stay focused on serving Hong Kong people well and maintaining our leading market positions, as the city gradually recovers. We will also continue to cautiously pursue growth opportunities in Hong Kong as well as across Southeast Asia, especially for the Media and Solutions businesses.

In view of the virus outbreak, we are taking all necessary precautions to safeguard our employees and to ensure business continuity. We will continue to monitor the development and take steps as appropriate to mitigate the risks.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Revenue							
HKT	17,022	18,165	**35,187**	15,109	17,994	**33,103**	(6)%
HKT (excluding Mobile Product Sales)	13,648	15,782	**29,430**	13,768	15,935	**29,703**	1%
Mobile Product Sales	3,374	2,383	**5,757**	1,341	2,059	**3,400**	(41)%
Now TV Business	1,392	1,463	**2,855**	1,358	1,327	**2,685**	(6)%
OTT Business	394	515	**909**	441	630	**1,071**	18%
Free TV Business	99	105	**204**	127	132	**259**	27%
Solutions Business	1,709	2,384	**4,093**	1,717	2,501	**4,218**	3%
Eliminations	(1,807)	(2,891)	**(4,698)**	(2,100)	(2,730)	**(4,830)**	(3)%
Core revenue	18,809	19,741	**38,550**	16,652	19,854	**36,506**	(5)%
PCPD	165	135	**300**	207	808	**1,015**	238%
Consolidated revenue	18,974	19,876	**38,850**	16,859	20,662	**37,521**	(3)%
Cost of sales	(10,152)	(10,490)	**(20,642)**	(8,149)	(10,758)	**(18,907)**	8%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(3,349)	(2,624)	**(5,973)**	(3,423)	(2,810)	**(6,233)**	(4)%
EBITDA[1]							
HKT	5,639	6,919	**12,558**	5,733	7,084	**12,817**	2%
Now TV Business	198	273	**471**	204	250	**454**	(4)%
OTT Business	(144)	(192)	**(336)**	(235)	(79)	**(314)**	7%
Free TV Business	(131)	(219)	**(350)**	(143)	(130)	**(273)**	22%
Solutions Business	271	809	**1,080**	293	721	**1,014**	(6)%
Other Businesses	(193)	(400)	**(593)**	(233)	(276)	**(509)**	14%
Eliminations	(87)	(343)	**(430)**	(312)	(538)	**(850)**	(98)%
Core EBITDA[1]	5,553	6,847	**12,400**	5,307	7,032	**12,339**	-
PCPD	(80)	(85)	**(165)**	(20)	62	**42**	N/A
Consolidated EBITDA[1]	5,473	6,762	**12,235**	5,287	7,094	**12,381**	1%
Core EBITDA[1] Margin	*30%*	*35%*	***32%***	*32%*	*35%*	***34%***	
Consolidated EBITDA[1] Margin	*29%*	*34%*	***31%***	*31%*	*34%*	***33%***	
Depreciation	(1,784)	(1,726)	**(3,510)**	(1,604)	(1,761)	**(3,365)**	4%
Amortization	(1,680)	(1,801)	**(3,481)**	(1,710)	(2,147)	**(3,857)**	(11)%
Gain/(Loss) on disposal of property, plant and equipment, net	1	(7)	**(6)**	(2)	(5)	**(7)**	(17)%
Other gains, net	334	309	**643**	426	72	**498**	(23)%
Interest income	71	63	**134**	40	46	**86**	(36)%
Finance costs	(893)	(1,006)	**(1,899)**	(925)	(1,033)	**(1,958)**	(3)%
Share of results of associates and joint ventures	(26)	94	**68**	10	23	**33**	(51)%
Profit before income tax	1,496	2,688	**4,184**	1,522	2,289	**3,811**	(9)%
Income tax	(437)	(697)	**(1,134)**	(423)	(518)	**(941)**	17%
Non-controlling interests	(874)	(1,279)	**(2,153)**	(936)	(1,253)	**(2,189)**	(2)%
Profit/(Loss) attributable to equity holders of the Company							
Consolidated	185	712	**897**	163	518	**681**	(24)%
Core	368	934	**1,302**	308	647	**955**	(27)%
PCPD	(183)	(222)	**(405)**	(145)	(129)	**(274)**	32%

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

Note 2 *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.*

Note 4 *Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. HKT's adjusted funds flow is computed in accordance with the above definition using financial information derived from HKT's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.*

HKT

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
HKT Revenue	17,022	18,165	**35,187**	15,109	17,994	**33,103**	(6)%
HKT Revenue (excluding Mobile Product Sales)	13,648	15,782	**29,430**	13,768	15,935	**29,703**	1%
Mobile Product Sales	3,374	2,383	**5,757**	1,341	2,059	**3,400**	(41)%
HKT EBITDA[1]	5,639	6,919	**12,558**	5,733	7,084	**12,817**	2%
HKT EBITDA[1] margin	*33%*	*38%*	***36%***	*38%*	*39%*	***39%***	
HKT Adjusted Funds Flow[4]	2,205	2,966	**5,171**	2,272	3,057	**5,329**	3%

HKT delivered a solid financial performance in 2019 despite a weak global economic environment and challenging local market conditions. HKT remained focus on deepening its customer engagement, providing innovative value-added services and a better user experience for customers – all of which reinforce HKT's position as the leading integrated telecommunications service provider to both consumer and business customers in Hong Kong.

Total revenue excluding Mobile product sales for the year ended December 31, 2019 increased by 1% to HK$29,703 million, underpinned by steady growth in TSS and Mobile Services revenue even as competition remained intense. Revenue from Mobile product sales of HK$3,400 million was recorded during the year, as compared to HK$5,757 million a year earlier, reflecting a longer handset replacement cycle especially in view of the impending arrival of 5G handsets and poor consumer sentiment.

Total EBITDA for the year was HK$12,817 million, an increase of 2% over the previous year, as HKT continued to drive operating efficiencies across all lines of its business.

Adjusted funds flow for the year ended December 31, 2019 expanded by 3% to HK$5,329 million. Adjusted funds flow per share stapled unit correspondingly grew by 3% to 70.38 HK cents for the year.

HKT recommended the payment of a final distribution of 40.37 HK cents per share stapled unit for the year ended December 31, 2019. This brings the 2019 full-year distribution to 70.38 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, including detailed reconciliation between HKT's EBITDA and adjusted funds flow as well as HKT's EBITDA and HKT's profit before income tax, please refer to its 2019 annual results announcement released on February 12, 2020.

Now TV Business

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Now TV Business Revenue	1,392	1,463	**2,855**	1,358	1,327	**2,685**	(6)%
Now TV Business EBITDA[1]	198	273	**471**	204	250	**454**	(4)%
Now TV *Business EBITDA[1] margin*	*14%*	*19%*	***16%***	*15%*	*19%*	***17%***	

Revenue for the Now TV business for the year ended December 31, 2019 decreased by 6% to HK$2,685 million compared to HK$2,855 million in 2018, which benefited from the broadcast of the World Cup. After adjusting for the impact of the World Cup and related event passes, underlying revenue of the Now TV business was steady.

Now TV's digital service, Now E, has continued to penetrate into non-TV users via its enhanced user interface and self-subscription model. As at December 31, 2019, Now TV had an installed base of 1,361,000, compared to 1,344,000 a year ago, with an exit average revenue per user ("ARPU") of HK$174.

EBITDA for the year ended December 31, 2019 was HK$454 million, representing a 4% decline but with an improved margin of 17% following Now TV's continued efforts in content cost rationalization and operational efficiency improvements.

The exclusive broadcast of the UEFA EURO 2020™, family segment focused content and immersive sports and entertainment content riding on the imminent 5G launch are several new initiatives that will drive further growth of Now TV in 2020.

OTT Business

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
OTT Business Revenue	394	515	**909**	441	630	**1,071**	18%
OTT Business EBITDA[1]	(144)	(192)	**(336)**	(235)	(79)	**(314)**	7%

Revenue for the OTT business grew by 18% to HK$1,071 million from HK$909 million a year ago underpinned by 32% growth in video OTT revenue to HK$881 million. Now available in 17 markets, the Viu service experienced strong revenue growth across a number of countries in Greater Southeast Asia and the Middle East.

The Viu service had a highly engaged user base of 41.4 million monthly active users ("MAUs") as of December 31, 2019, that watched 5.7 billion videos representing growth rates of 35% and 69% respectively. Strong user growth was experienced particularly in Thailand and Indonesia.

The strong growth in Viu MAUs and increased engagement is supported by our continuing investment in Viu Original productions. Viu's locally relevant, Asian language original content has received critical acclaim and numerous awards. Viu Original productions also provide potential syndication opportunities; for instance, the first season of "The Bridge" has been licensed to HBO Asia for distribution.

We are further enriching the content offering by partnering with international content partners that value Viu's large base of engaged and digitally savvy users. In November, we announced that Discovery's content would be made available to Viu users across the region.

As a result of the enlarged revenue base, the EBITDA loss of OTT business moderated to HK$314 million for the year ended December 31, 2019 as compared to HK$336 million a year ago with a significant improvement experienced in the second half of the year.

Free TV Business

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Free TV Business Revenue	99	105	**204**	127	132	**259**	27%
Free TV Business EBITDA[1]	(131)	(219)	**(350)**	(143)	(130)	**(273)**	22%

Revenue for ViuTV grew by 27% to HK$259 million for the year ended December 31, 2019 from HK$204 million a year ago. This growth reflected an 11% increase in advertising revenue during the year driven by our expanding viewership. In addition, our non-advertising revenue from drama production and distribution as well as talent management started to generate meaningful contribution during the year.

ViuTV's EBITDA loss for the year ended December 31, 2019 narrowed to HK$273 million, reflecting improvements that commenced in the second half of 2018.

ViuTV has a strong pipeline of programs for the coming year and will continue to focus on delivering high quality drama and innovative programs to drive viewership and growth, as well as diversifying its revenue base beyond advertising.

Solutions Business

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Solutions Business Revenue	1,709	2,384	**4,093**	1,717	2,501	**4,218**	3%
Solutions Business EBITDA[1]	271	809	**1,080**	293	721	**1,014**	(6)%
Solutions Business EBITDA[1] margin	*16%*	*34%*	***26%***	*17%*	*29%*	***24%***	

Revenue for the Solutions business increased by 3% to HK$4,218 million for year ended December 31, 2019. The increase in revenue was driven by the growth in cloud solutions and infrastructure services as well as the successful execution of mission critical projects for clients including the Hong Kong International Airport. The mix of revenue remained healthy with revenue of a recurring nature representing 60% of total revenue in 2019.

PCCW Solutions has continued its strategy of expanding outside its home market of Hong Kong, in particular expanding its presence in Southeast Asia. In Singapore, it acquired a business that added over 550 headcount and recently won long term contracts serving several Singapore government agencies. PCCW Solutions has also been expanding its headcount in the Philippines and Malaysia to provide near-shore delivery resources. Solutions business's regional strategy is to provide end-to-end IT services, ranging from application development, systems integration, outsourcing to IP solutions, with a focus on the public sector, telecom, travel and transportation industries.

Recurring EBITDA margin was relatively steady at 29% while project based EBITDA margin stabilized. However, to support its regional expansion strategy, the Solutions business started to incur higher overheads. This led to a decrease in overall EBITDA of 6% to HK$1,014 million for the year ended December 31, 2019.

The Solutions business's secured orders increased by 29% to HK$9,271 million as at December 31, 2019. Encouragingly, over 30% of the secured orders is located outside of Hong Kong and will contribute a larger portion of the revenue in the coming years. Data center demand continues to be strong and the Solutions business has secured contracts from anchor clients such as international cloud providers and investment banks for its new data center facilities in Hong Kong, while discussing with potential customers for additional capacity.

PCPD

PCPD recorded total revenue of HK$1,015 million for the year ended December 31, 2019, representing an increase of 238% from HK$300 million in 2018. The increase was mainly due to sales of properties in Japan.

In Hokkaido, the Park Hyatt Niseko, Hanazono (the "Hotel") welcomed its first group of guests in January 2020 and the Branded Residences' handover and inspection with owners has been continuing progressively since December 2019. To date, over 90% of the units have been sold.

In Indonesia, approximately 86% of the office floor space at Pacific Century Place, Jakarta, has been reserved or committed. PCPD expects its innovative design and its wide array of amenities and services to continue to attract top-tier tenants around the world.

In Phang-nga, Thailand, construction of an 18-hole golf course, golf and country club and relevant infrastructure in the first phase is under way. The golf course and golf club are expected to be completed in the fourth quarter of 2020. PCPD commenced sales of the first batch of villas in 2019.

For the project of Nos. 3-6 Glenealy, Central, Hong Kong, PCPD has submitted a redevelopment plan to the Town Planning Board and it is subject to Government approval.

For more information about the performance of PCPD, please refer to its 2019 annual results announcement released on February 11, 2020.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the year ended December 31, 2019 decreased to HK$509 million (2018: HK$593 million).

Eliminations

Eliminations for the year ended December 31, 2019 were HK$4,830 million (2018: HK$4,698 million). This reflects the continued collaboration amongst the Company's business segments mainly including HKT and the Solutions business to jointly serve both internal and external projects.

Costs

Cost of Sales

For the year ended December 31, HK$ million	2018			2019			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
HKT	8,858	9,122	**17,980**	6,950	8,837	**15,787**	12%
The Group (excluding PCPD)	10,125	10,467	**20,592**	8,118	10,320	**18,438**	10%
Consolidated	10,152	10,490	**20,642**	8,149	10,758	**18,907**	8%

HKT's cost of sales for the year ended December 31, 2019 decreased by 12% to HK$15,787 million, reflecting the lower Mobile product sales during the year. Cost of sales for the core businesses decreased by 10% primarily driven by lower Mobile product sales at HKT and a lower cost of sales at Now TV Business following the streamlining of content costs.

The Group's consolidated total cost of sales for the year ended December 31, 2019 decreased by 8% to HK$18,907 million.

General and Administrative Expenses

For the year ended December 31, 2019, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") increased by 4% to HK$6,233 million largely due to the continued investments to support the regional expansion of the Media and Solutions businesses. Meanwhile, HKT continued to optimize the operating cost efficiencies across its businesses.

Depreciation expenses for the year decreased by 4% to HK$3,365 million as a result of the reduction in the depreciation charge associated with right-of-use assets following HKT's retail shop rationalization, and the Group's ongoing periodic review of the useful lives of network assets. Amortization expenses increased by 11%, which is in line with the increased investments in programs and content for the Free TV and OTT businesses. Content related amortization for the year was HK$960 million, as compared to HK$669 million a year ago.

As a whole, general and administrative expenses increased by 4% year-on-year to HK$13,462 million for the year ended December 31, 2019.

EBITDA[1]

Core EBITDA for the year ended December 31, 2019 was stable at HK$12,339 million with the margin improved to 34% due to lower Mobile product sales at HKT. By business segment, EBITDA for HKT increased by 2% while the EBITDA losses at the Media business narrowed and the Solutions business EBITDA declined by 6%. Excluding Mobile product sales, the core EBITDA margin was 37%.

Other gains, net

Net other gains of HK$498 million were recorded for the year ended December 31, 2019, primarily representing a fair value gain on network capacity access rights. This compared to net other gains of HK$643 million a year ago which largely related to the recognition of certain investment gains.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2019 was HK$86 million. Finance costs increased by 3% to HK$1,958 million mainly due to the overall increase in HIBOR and increase in borrowings to fund PCPD's projects and regional expansion of the Media and Solutions businesses. As a result, net finance costs increased by 6% to HK$1,872 million for the year ended December 31, 2019. The average cost of debt was 3.4% as compared to 3.3% a year ago.

Income Tax

Income tax expense for the year ended December 31, 2019 was HK$941 million, as compared to HK$1,134 million a year ago, reflecting the underlying trend in the Group's profit before income tax.

Non-controlling Interests

Non-controlling interests were HK$2,189 million for the year ended December 31, 2019 (2018: HK$2,153 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

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2019 was HK$681 million (2018: HK$897 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt[2] was HK$55,499 million as at December 31, 2019 (December 31, 2018: HK$50,240 million). Cash and short-term deposits totaled HK$5,822 million as at December 31, 2019 (December 31, 2018: HK$7,361 million).

As at December 31, 2019, the Group had a total of HK$42,595 million in committed bank loan facilities available for liquidity management and investment, of which HK$16,685 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$28,348 million, of which HK$9,190 million remained undrawn.

The Group's gross debt[2] to total assets was 56% as at December 31, 2019 (December 31, 2018: 53%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2019, 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, 2019 was HK$5,042 million (2018: HK$3,902 million), of which HKT accounted for about 54% (2018: 66%). Capital expenditure for HKT's Mobile business remained steady in 2019 with spending focused on critical infrastructure enhancements, network capacity expansion and preparation for 5G rollout. Capital expenditure for the TSS business increased during the year, mainly due to the investment in the Ultra Express Link, a submarine cable connecting Tseung Kwan O Industrial Estate and Chai Wan which was ready for service in December 2019, as well as to support customized solutions for enterprises and continued demand for fiber-to-the-home ("FTTH") services. Capital expenditure for the Media business decreased mainly due to completion of the relocation and upgrading of its production studio facilities in 2018. Capital expenditure for the Solutions business increased to support the expansion of data center capacity in Hong Kong. There was an increase in capital expenditure at PCPD to support the Hotel and Branded Residences project.

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

HEDGING

Market risk arises from foreign currency and interest rate exposure related to investments and borrowings. As a matter of policy, 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, 2019, 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 impacts of these operational and financial risks to the Group are considered not material.

CHARGE ON ASSETS

As at December 31, 2019, certain assets of the Group with an aggregate carrying value of HK$10,310 million (2018: HK$5,052 million) were pledged to secure certain banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, **HK$ million**	2018	**2019**
Performance guarantees	566	1,093
Others	160	165
	726	1,258

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at December 31, 2019, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the Directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

HUMAN RESOURCES

The Group had over 24,700 employees as at December 31, 2019 (2018: 23,600) located in 50 countries and cities. About 61% 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 23 HK cents (2018: 22.33 HK cents) per ordinary share for the year ended December 31, 2019 to shareholders whose names appear on the register of members of the Company on Friday, May 15, 2020, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Friday, May 8, 2020 ("AGM"). An interim dividend of 9.18 HK cents (2018: 8.91 HK cents) per ordinary share for the six months ended June 30, 2019 was paid to shareholders of the Company in October 2019.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Friday, May 15, 2020. The Company's register of members will be closed from Thursday, May 14, 2020 to Friday, May 15, 2020 (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 Wednesday, May 13, 2020. Subject to the approval of shareholders of the Company at the AGM, dividend warrants will be despatched to shareholders on or around Tuesday, June 9, 2020.

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 Monday, May 4, 2020. 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 Monday, May 4, 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2019, 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, 2019.

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, 2019.

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 2019 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 13, 2020

AUDITED CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2019

In HK$ million (except for earnings per share)	Note(s)	2018	**2019**
Revenue	2, 3	38,850	**37,521**
Cost of sales		(20,642)	**(18,907)**
General and administrative expenses		(12,970)	**(13,462)**
Other gains, net	4	643	**498**
Interest income		134	**86**
Finance costs		(1,899)	**(1,958)**
Share of results of associates		97	**54**
Share of results of joint ventures		(29)	**(21)**
Profit before income tax	2, 5	4,184	**3,811**
Income tax	6	(1,134)	**(941)**
Profit for the year		3,050	**2,870**
Profit attributable to:			
Equity holders of the Company		897	**681**
Non-controlling interests		2,153	**2,189**
		3,050	**2,870**
Earnings per share	8		
Basic		11.63 cents	**8.83 cents**
Diluted		11.62 cents	**8.82 cents**

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019

In HK$ million	2018	**2019**
Profit for the year	3,050	**2,870**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	(30)	**13**
Changes in fair value of equity instruments at fair value through other comprehensive income	(81)	**(54)**
	(111)	**(41)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	(357)	**201**
Cash flow hedges:		
- effective portion of changes in fair value	(173)	**258**
- transfer from equity to consolidated income statement	34	**152**
Costs of hedging	46	**14**
	(450)	**625**
Other comprehensive (loss)/income for the year	(561)	**584**
Total comprehensive income for the year	2,489	**3,454**
Attributable to:		
Equity holders of the Company	425	**1,046**
Non-controlling interests	2,064	**2,408**
Total comprehensive income for the year	2,489	**3,454**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

In HK$ million	Note*	The Group 2018	The Group **2019**	(Additional Information) The Company 2018	(Additional Information) The Company **2019**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		23,900	**27,805**	–	**–**
Right-of-use assets		4,175	**3,745**	–	**–**
Investment properties		3,517	**3,680**	–	**–**
Interests in leasehold land		385	**368**	–	**–**
Properties held for/under development		3,164	**2,922**	–	**–**
Goodwill		18,192	**18,344**	–	**–**
Intangible assets		10,996	**13,331**	–	**–**
Fulfillment costs		1,369	**1,385**	–	**–**
Customer acquisition costs		807	**771**	–	**–**
Contract assets		302	**349**	–	**–**
Interests in subsidiaries		–	**–**	18,808	**20,163**
Interests in associates		778	**1,183**	–	**–**
Interests in joint ventures		530	**497**	–	**–**
Financial assets at fair value through other comprehensive income		1,102	**124**	–	**–**
Financial assets at fair value through profit or loss		731	**817**	–	**–**
Derivative financial instruments		152	**284**	4	**–**
Deferred income tax assets		1,194	**1,089**	–	**–**
Other non-current assets		1,243	**1,333**	–	**–**
Restricted cash		217	**–**	–	**–**
		72,754	**78,027**	18,812	**20,163**
Current assets					
Amounts due from subsidiaries		–	**–**	13,796	**17,588**
Sales proceeds held in stakeholders' accounts		507	**506**	–	**–**
Properties under development/held for sale		770	**1,421**	–	**–**
Inventories		1,280	**1,226**	–	**–**
Prepayments, deposits and other current assets		3,748	**3,639**	16	**20**
Contract assets		2,690	**2,789**	–	**–**
Trade receivables, net	9	4,799	**4,616**	–	**–**
Amounts due from related companies		110	**116**	–	**–**
Derivative financial instruments		4	**6**	4	**–**
Tax recoverable		18	**18**	–	**–**
Restricted cash		186	**709**	–	**–**
Short-term deposits		604	**486**	–	**–**
Cash and cash equivalents		6,757	**5,336**	2,729	**1,004**
		21,473	**20,868**	16,545	**18,612**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at December 31, 2019

In HK$ million	Note*	The Group 2018	The Group **2019**	(Additional Information) The Company 2018	(Additional Information) The Company **2019**
Current liabilities					
Short-term borrowings		(608)	**(1,528)**	–	**–**
Trade payables	10	(1,952)	**(2,746)**	–	**–**
Accruals and other payables		(6,681)	**(6,406)**	(11)	**(19)**
Amount payable to the Government under the Cyberport Project Agreement		(322)	**(325)**	–	**–**
Carrier licence fee liabilities		(173)	**(195)**	–	**–**
Amounts due to related companies		(1)	**(3)**	–	**–**
Advances from customers		(355)	**(381)**	–	**–**
Contract liabilities		(1,856)	**(1,966)**	–	**–**
Lease liabilities		(1,608)	**(1,376)**	–	**–**
Current income tax liabilities		(1,036)	**(1,361)**	–	**–**
		(14,592)	**(16,287)**	(11)	**(19)**
Non-current liabilities					
Long-term borrowings		(49,307)	**(53,505)**	–	**(3,206)**
Amounts due to subsidiaries		–	**–**	(3,206)	**(3,308)**
Derivative financial instruments		(263)	**(72)**	(82)	**(21)**
Deferred income tax liabilities		(3,674)	**(3,933)**	–	**–**
Defined benefit retirement schemes liability		(135)	**(120)**	–	**–**
Carrier licence fee liabilities		(357)	**(527)**	–	**–**
Contract liabilities		(1,010)	**(1,001)**	–	**–**
Lease liabilities		(2,871)	**(2,717)**	–	**–**
Other long-term liabilities		(2,409)	**(2,761)**	–	**–**
		(60,026)	**(64,636)**	(3,288)	**(6,535)**
Net assets		19,609	**17,972**	32,058	**32,221**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2019

In HK$ million	Note*	The Group 2018	The Group **2019**	(Additional Information) The Company 2018	(Additional Information) The Company **2019**
CAPITAL AND RESERVES					
Share capital	11	12,954	**12,954**	12,954	**12,954**
Reserves		4,141	**2,584**	19,104	**19,267**
Equity attributable to equity holders of the Company		17,095	**15,538**	32,058	**32,221**
Non-controlling interests		2,514	**2,434**	–	**–**
Total equity		19,609	**17,972**	32,058	**32,221**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2018 and 2019 is presented only as additional information to these consolidated financial statements.

NOTES

1. BASIS OF PREPARATION

These consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2019 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622).

The following new or amended Hong Kong Financial Reporting Standards (the "new or amended HKFRSs") are mandatory for the first time for the financial year beginning January 1, 2019, but have no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 19 (2011) (Amendments), *Employee Benefits*
- HKAS 28 (2011) (Amendments), *Investments in Associates and Joint Ventures*
- HKFRS 9 (2014) (Amendments), *Financial Instruments*
- HK(IFRIC) - Int 23, *Uncertainty over Income Tax Treatments*
- Annual Improvements to HKFRSs 2015-2017 Cycle issued in February 2018 by the HKICPA

The Group has not early adopted any new or amended HKFRSs that are not yet effective for the current accounting period.

The financial information relating to the years ended December 31, 2018 and 2019 included in this preliminary announcement of annual results for the year ended December 31, 2019 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, 2018 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, 2019 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).

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, enterprise solutions, 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 and over-the-top ("OTT") digital media entertainment services in Hong Kong, the Asia Pacific region, 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.

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

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:

In HK$ million	2018							
	Reportable segments						Other[#]	Con-solidated
	HKT	Media Business	Solutions Business	PCPD	Elimina-tions	Total		
REVENUE								
External revenue	33,665	2,471	2,417	297	–	38,850	–	38,850
Inter-segment revenue	1,522	1,497	1,676	3	(4,698)	–	–	–
Total Revenue	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
External revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	7,422	170	217	–	–	7,809	–	7,809
Over time	26,185	2,301	2,200	160	–	30,846	–	30,846
External revenue from other sources:								
Rental income	58	–	–	137	–	195	–	195
	33,665	2,471	2,417	297	–	38,850	–	38,850
RESULTS								
EBITDA	12,558	(215)	1,080	(165)	(430)	12,828	(593)	12,235

2. SEGMENT INFORMATION (CONTINUED)

In HK$ million	2019							
	Reportable segments						Other[#]	Con-solidated
	HKT	Media Business	Solutions Business	PCPD	Elimina-tions	Total		
REVENUE								
External revenue	**31,332**	**2,654**	**2,522**	**1,013**	**–**	**37,521**	**–**	**37,521**
Inter-segment revenue	**1,771**	**1,361**	**1,696**	**2**	**(4,830)**	**–**	**–**	**–**
Total Revenue	**33,103**	**4,015**	**4,218**	**1,015**	**(4,830)**	**37,521**	**–**	**37,521**
External revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	**5,304**	**336**	**60**	**648**	**–**	**6,348**	**–**	**6,348**
Over time	**25,967**	**2,318**	**2,462**	**213**	**–**	**30,960**	**–**	**30,960**
External revenue from other sources:								
Rental income	**61**	**–**	**–**	**152**	**–**	**213**	**–**	**213**
	31,332	**2,654**	**2,522**	**1,013**	**–**	**37,521**	**–**	**37,521**
RESULTS								
EBITDA	**12,817**	**(133)**	**1,014**	**42**	**(850)**	**12,890**	**(509)**	**12,381**

[#] Other primarily comprises corporate support functions.

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

In HK$ million	2018	**2019**
Total segment EBITDA	12,235	**12,381**
Loss on disposal of property, plant and equipment, net	(6)	**(7)**
Depreciation and amortization	(6,991)	**(7,222)**
Other gains, net	643	**498**
Interest income	134	**86**
Finance costs	(1,899)	**(1,958)**
Share of results of associates and joint ventures	68	**33**
Profit before income tax	4,184	**3,811**

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	2018	**2019**
Hong Kong (place of domicile)	32,185	**30,592**
Mainland and other parts of China	960	**756**
Japan	226	**893**
Others	5,479	**5,280**
	38,850	**37,521**

As at December 31, 2019, the total non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK$61,013 million (2018: HK$56,983 million), and the total of these non-current assets located in other countries was HK$14,363 million (2018: HK$12,229 million).

3. REVENUE

In HK$ million	2018	**2019**
Revenue from contracts with customers	38,655	**37,308**
Revenue from other sources: rental income	195	**213**
	38,850	**37,521**

(a) Revenue recognition in relation to contract liabilities

In HK$ million	2018	**2019**
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,538	**1,856**

(b) Unsatisfied long-term fixed-price contracts

In HK$ million	2018	**2019**
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31,	24,635	**26,409**

As at December 31, 2019, management expected that 53% and 22% (2018: 51% and 26%) of the transaction price allocated to the unsatisfied long-term fixed-price contracts would be recognized as revenue during the first and second year respectively after the end of the reporting period. The remaining 25% (2018: 23%) would be recognized as revenue in the periods afterwards. The amount disclosed above does not include unsatisfied performance obligation that is related to the Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

4. OTHER GAINS, NET

In HK$ million	2018	**2019**
Gain on disposal of subsidiaries	276	**–**
Fair value movement of derivative financial instruments	15	**12**
Fair value gains on financial assets at FVPL[1]	300	**49**
Dividend income from financial assets at FVOCI[2]	44	**49**
Dividend income from financial assets at FVPL	1	**–**
Provision for impairment of interests in joint ventures	(2)	**–**
Fair value gain on Network Capacity Access Rights *(note (a))*	–	**369**
Net gain on purchase of guaranteed notes	–	**19**
Loss on disposal of an associate	–	**(2)**
Others	9	**2**
	643	**498**

1. FVPL refers to fair value through profit or loss
2. FVOCI refers to fair value through other comprehensive income

(a) In May 2017, the Group completed the transaction to sell the entire issued share capital of Transvision Investments Limited (the "Transaction"), part of the operation of the wireless broadband and related business component in the United Kingdom (the "UK Component"), to an independent third party (the "Buyer") for GBP250 million cash (equivalent to approximately HK$2,509 million) and two restricted use network capacity access instruments issued by the Buyer with a total face value of GBP50 million (equivalent to approximately HK$502 million), representing the corresponding value of capacity access on the mobile network operated by the Buyer in the United Kingdom (the "Network Capacity Access Rights").

The remaining operation of the UK Component ceased in 2018. Therefore, the results, including the disposal gain on the Transaction, of the UK Component was presented as discontinued operation in the consolidated income statement for the year ended December 31, 2018.

No value of the Network Capacity Access Rights had been recognized by the Group up to December 31, 2018 due to the uncertainty of potential market condition and the range of potential values being too wide for an amount to be measured reliably. During the first half of the year ended December 31, 2019, clarity on the fair value of the Network Capacity Access Rights has substantially improved. Accordingly, a fair value gain of HK$369 million was recognized as other gains, net in the consolidated income statement.

During the second half of the year ended December 31, 2019, half of the Network Capacity Access Rights was sold to an independent third party.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after (crediting)/charging the following:

In HK$ million	2018	**2019**
Revenue from properties sold	–	**(620)**
Cost of inventories sold	7,754	**4,837**
Cost of properties sold	–	**408**
Cost of sales, excluding inventories/properties sold	12,888	**13,662**
Depreciation of property, plant and equipment	1,588	**1,450**
Depreciation of right-of-use assets – land and buildings	1,614	**1,663**
Depreciation of right-of-use assets – network capacity and equipment	308	**252**
Amortization of land lease premium – interests in leasehold land	18	**17**
Amortization of intangible assets	1,996	**2,304**
Amortization of fulfillment costs	422	**500**
Amortization of customer acquisition costs	1,045	**1,036**

6. INCOME TAX

In HK$ million	2018	**2019**
Current income tax:		
Hong Kong profits tax	592	**495**
Overseas tax	56	**99**
Movement of deferred income tax	486	**347**
	1,134	**941**

Hong Kong profits tax is provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

7. DIVIDENDS

In HK$ million	2018	**2019**
Interim dividend declared and paid in respect of the current year of 9.18 HK cents (2018: 8.91 HK cents) per ordinary share	688	**709**
Less: dividend for shares held by share award schemes	(1)	**(1)**
	687	**708**
Final dividend declared in respect of the previous financial year, approved and paid during the year of 22.33 HK cents (2018: 21.18 HK cents) per ordinary share	1,635	**1,724**
Less: dividend for shares held by share award schemes	(2)	**(1)**
	1,633	**1,723**
	2,320	**2,431**
Final dividend proposed after the end of the reporting period of 23 HK cents (2018: 22.33 HK cents) per ordinary share *(note (a))*	1,724	**1,776**

(a) Final dividend proposed after the end of the reporting period is not recognized as a liability as at the end of the reporting period.

8. EARNINGS PER SHARE

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

	2018	**2019**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	897	**681**
Number of shares		
Weighted average number of ordinary shares	7,719,638,249	**7,719,638,249**
Effect of shares held under the Company's share award schemes	(8,515,434)	**(6,023,024)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,711,122,815	**7,713,615,225**
Effect of shares awarded under the Company's share award schemes	9,104,240	**7,724,189**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,720,227,055	**7,721,339,414**

9. TRADE RECEIVABLES, NET

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

In HK$ million	2018	**2019**
1 – 30 days	3,422	**3,211**
31 – 60 days	526	**493**
61 – 90 days	202	**353**
91 – 120 days	162	**152**
Over 120 days	699	**691**
	5,011	**4,900**
Less: loss allowance	(212)	**(284)**
	4,799	**4,616**

As at December 31, 2019, included in trade receivables, net were amounts due from related parties of HK$54 million (2018: HK$56 million).

The Group's normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The 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.

10. TRADE PAYABLES

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

In HK$ million	2018	**2019**
1 – 30 days	1,287	**1,585**
31 – 60 days	140	**583**
61 – 90 days	59	**105**
91 – 120 days	28	**34**
Over 120 days	438	**439**
	1,952	**2,746**

As at December 31, 2019, included in trade payables were amounts due to related parties of HK$21 million (2018: HK$32 million).

11. SHARE CAPITAL

	Year ended December 31,			
	2018		**2019**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares of no par value, issued and fully paid:				
As at January 1, and December 31,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

The Company had total distributable reserves of HK$19,264 million as at December 31, 2019 (December 31, 2018: HK$19,104 million).

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; Li Fushen (Deputy Chairman); Shao Guanglu; Zhu Kebing and Wei Zhe, David

Independent Non-Executive Directors
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, earnings and prospects. 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.