

**HKT GROUP HOLDINGS LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**



**INDEPENDENT AUDITOR'S REPORT**

**TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED**  
(Incorporated in the Cayman Islands with limited liability)

**Opinion**

*What we have audited*

The consolidated financial statements of HKT Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 3 to 86, which comprise:

- the consolidated income statement for the year ended December 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of principal accounting policies.

*Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

*Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

**Responsibilities of Directors for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED (CONTINUED)**

(Incorporated in the Cayman Islands with limited liability)

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, April 3, 2019

**HKT GROUP HOLDINGS LIMITED****CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

In HK\$ million	Note(s)	2017 (Restated <sup>#</sup> )	2018
Revenue	6 & 7	33,067	<b>35,187</b>
Cost of sales		(15,972)	<b>(17,980)</b>
General and administrative expenses		(10,130)	<b>(9,984)</b>
Other (losses)/gains, net	8	(143)	<b>2</b>
Finance costs, net	10	(1,211)	<b>(1,468)</b>
Share of results of associates		(12)	<b>-</b>
Share of results of joint ventures		(28)	<b>(29)</b>
Profit before income tax	6&9	5,571	<b>5,728</b>
Income tax	12	(889)	<b>(992)</b>
Profit for the year		4,682	<b>4,736</b>
Attributable to:			
- Equity holder of the Company		4,670	<b>4,719</b>
- Non-controlling interests		12	<b>17</b>
Profit for the year		4,682	<b>4,736</b>

<sup>#</sup> See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 10 to 86 form part of these consolidated financial statements.

**HKT GROUP HOLDINGS LIMITED****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2018**

In HK\$ million	2017 (Restated*)	2018
Profit for the year	4,682	<b>4,736</b>
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	176	<b>(79)</b>
Cash flow hedges:		
- effective portion of changes in fair value	(280)	<b>(137)</b>
- transfer from equity to consolidated income statement	(332)	<b>35</b>
Costs of hedging	-	<b>39</b>
Other comprehensive loss for the year	(436)	<b>(142)</b>
Total comprehensive income for the year	4,246	<b>4,594</b>
Attributable to:		
- Equity holder of the Company	4,234	<b>4,577</b>
- Non-controlling interests	12	<b>17</b>
Total comprehensive income for the year	4,246	<b>4,594</b>

\* See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 10 to 86 form part of these consolidated financial statements.

**HKT GROUP HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2018**

In HK\$ million	Note	Attributable to equity holder of the Company	2017 (Restated*) Non- controlling interests	Total equity
<b>At January 1, 2017 as originally presented</b>		31,883	63	31,946
Changes in accounting policies	4	(818)	-	(818)
<b>At January 1, 2017 (restated*)</b>		<b>31,065</b>	<b>63</b>	<b>31,128</b>
<b>Total comprehensive income for the year</b>				
Profit for the year		4,670	12	4,682
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		176	-	176
Cash flow hedges:				
- effective portion of changes in fair value		(280)	-	(280)
- transfer from equity to consolidated income statement		(332)	-	(332)
<b>Other comprehensive loss</b>		<b>(436)</b>	<b>-</b>	<b>(436)</b>
<b>Total comprehensive income for the year</b>		<b>4,234</b>	<b>12</b>	<b>4,246</b>
<b>Transactions with equity holder</b>				
Contributions by and distributions to equity holder:				
Issue of ordinary shares		13	-	13
Final dividend paid in respect of the previous year	13	(2,632)	-	(2,632)
Interim dividend declared and paid in respect of the current year	13	(2,129)	-	(2,129)
Dividend declared and paid to non-controlling shareholders of subsidiaries		-	(35)	(35)
<b>Total transactions with equity holder</b>		<b>(4,748)</b>	<b>(35)</b>	<b>(4,783)</b>
<b>At December 31, 2017</b>		<b>30,551</b>	<b>40</b>	<b>30,591</b>

\* See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 10 to 86 form part of these consolidated financial statements.

**HKT GROUP HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

In HK\$ million	Note	2018 Attributable to equity holder of the Company	Non- controlling interests	Total equity
<b>At December 31, 2017 as originally presented</b>		<b>31,720</b>	<b>40</b>	<b>31,760</b>
Changes in accounting policies	4	<b>(1,169)</b>	-	<b>(1,169)</b>
<b>At December 31, 2017 (restated*) and January 1, 2018</b>		<b>30,551</b>	<b>40</b>	<b>30,591</b>
<b>Total comprehensive income for the year</b>				
Profit for the year		4,719	17	4,736
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		(79)	-	(79)
Cash flow hedges:				
- effective portion of changes in fair value		(137)	-	(137)
- transfer from equity to consolidated income statement		35	-	35
Costs of hedging		39	-	39
<b>Other comprehensive loss</b>		<b>(142)</b>	-	<b>(142)</b>
<b>Total comprehensive income for the year</b>		<b>4,577</b>	<b>17</b>	<b>4,594</b>
<b>Transactions with equity holder</b>				
Contributions by and distributions to equity holder:				
Issue of ordinary shares		32	-	32
Final dividend paid in respect of the previous year	13	(2,783)	-	(2,783)
Interim dividend declared and paid in respect of the current year	13	(2,205)	-	(2,205)
Dividend declared and paid to non-controlling shareholders of subsidiaries		-	(20)	(20)
<b>Total contributions by and distributions to equity holder</b>		<b>(4,956)</b>	<b>(20)</b>	<b>(4,976)</b>
Contribution from a non-controlling shareholder of a subsidiary		-	2	2
<b>Total transactions with equity holder</b>		<b>(4,956)</b>	<b>(18)</b>	<b>(4,974)</b>
<b>At December 31, 2018</b>		<b>30,172</b>	<b>39</b>	<b>30,211</b>

# See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 10 to 86 form part of these consolidated financial statements.

**HKT GROUP HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2018**

In HK\$ million	Note(s)	As at January 1, 2017 (Restated*)	As at December 31, 2017 (Restated*)	As at <b>December 31, 2018</b>
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14	18,019	19,386	<b>20,601</b>
Right-of-use assets	15	2,555	2,220	<b>2,808</b>
Interests in leasehold land	16	253	240	<b>227</b>
Goodwill	17	49,787	49,814	<b>49,805</b>
Intangible assets	18	8,152	7,966	<b>8,691</b>
Fulfillment costs		1,378	1,378	<b>1,336</b>
Customer acquisition costs		648	611	<b>632</b>
Contract assets		349	350	<b>295</b>
Interests in associates	19	130	-	-
Interests in joint ventures	20	587	572	<b>528</b>
Available-for-sale financial assets	21	77	77	-
Financial assets at fair value through other comprehensive income	22	-	-	77
Financial assets at fair value through profit or loss	23	42	20	<b>8</b>
Derivative financial instruments	27	277	223	<b>148</b>
Deferred income tax assets	31	317	468	<b>465</b>
Other non-current assets		618	842	<b>1,065</b>
		83,189	84,167	<b>86,686</b>
<b>Current assets</b>				
Inventories	25(a)	707	749	<b>1,080</b>
Prepayments, deposits and other current assets		2,781	2,768	<b>2,030</b>
Contract assets		771	737	<b>630</b>
Trade receivables, net	25(b)	3,035	2,787	<b>3,727</b>
Amounts due from related companies	5(c)	98	77	<b>102</b>
Financial assets at fair value through profit or loss	23	55	28	<b>12</b>
Restricted cash	25(c)	36	51	<b>88</b>
Short-term deposits		450	450	<b>523</b>
Cash and cash equivalents	33(d)	2,882	3,217	<b>2,534</b>
		10,815	10,864	<b>10,726</b>
<b>Current liabilities</b>				
Trade payables	25(d)	2,474	1,874	<b>1,787</b>
Accruals and other payables		4,979	5,117	<b>4,757</b>
Carrier licence fee liabilities	32	173	173	<b>173</b>
Amounts due to fellow subsidiaries and the immediate holding company	5(c) & 5(d)	7,748	8,275	<b>9,061</b>
Advances from customers		265	241	<b>266</b>
Contract liabilities		1,276	1,288	<b>1,415</b>
Lease liabilities		1,414	1,157	<b>1,293</b>
Current income tax liabilities		659	716	<b>615</b>
		18,988	18,841	<b>19,367</b>



**HKT GROUP HOLDINGS LIMITED**

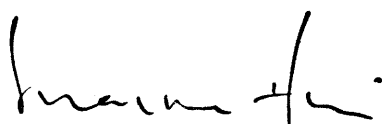
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

**AS AT DECEMBER 31, 2018**

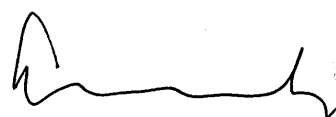
In HK\$ million	Note(s)	As at January 1, 2017 (Restated#)	As at December 31, 2017 (Restated#)	As at December 31, 2018
<b>Non-current liabilities</b>				
Long-term borrowings	26	38,193	39,146	<b>40,169</b>
Derivative financial instruments	27	14	150	<b>152</b>
Deferred income tax liabilities	31	2,713	2,989	<b>3,393</b>
Carrier licence fee liabilities	32	544	455	<b>357</b>
Contract liabilities		801	952	<b>1,010</b>
Lease liabilities		1,200	1,307	<b>1,900</b>
Other long-term liabilities		423	600	<b>853</b>
		43,888	45,599	<b>47,834</b>
<b>Net assets</b>		<b>31,128</b>	<b>30,591</b>	<b>30,211</b>
<b>CAPITAL AND RESERVES</b>				
Share capital	29	4,961	4,961	<b>4,961</b>
Reserves	30	26,104	25,590	<b>25,211</b>
<b>Equity attributable to equity holder of the Company</b>				
Non-controlling interests	24(b)	31,065	30,551	<b>30,172</b>
		63	40	<b>39</b>
<b>Total equity</b>		<b>31,128</b>	<b>30,591</b>	<b>30,211</b>

# See note 4 for details regarding the restatement as a result of changes in accounting policies.

Approved and authorized for issue by the board of directors (the "Board") on April 3, 2019 and signed on behalf of the Board by



**Hui Hon Hing, Susanna**  
Director



**Wong Hong Kit**  
Director

The notes on pages 10 to 86 form part of these consolidated financial statements.

**HKT GROUP HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

In HK\$ million	Note	2017 (Restated*)	2018
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>			
	33(a)	10,275	<b>10,644</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		4	<b>3</b>
Proceeds from disposal of available-for-sale financial assets		6	-
Purchases of property, plant and equipment		(2,602)	<b>(2,536)</b>
Purchases of intangible assets		(1,244)	<b>(2,137)</b>
Net outflow of cash and cash equivalents in respect of business combination	33(c)	-	<b>(3)</b>
Investment in a joint venture		-	<b>(30)</b>
Loans to associates		(19)	<b>(12)</b>
Loans to joint ventures		(115)	<b>(72)</b>
Cash received from lease receivables		31	<b>56</b>
Increase in short-term deposits with maturity more than three months		-	<b>(73)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(3,939)</b>	<b>(4,804)</b>
<b>FINANCING ACTIVITIES</b>			
New borrowings raised, net	33(b)	5,275	<b>13,616</b>
Finance costs paid	33(b)	(856)	<b>(886)</b>
Repayments of borrowings	33(b)	(4,650)	<b>(12,543)</b>
Payment for lease liabilities (including interests)	33(b)	(1,661)	<b>(1,665)</b>
Movement in amounts due to fellow subsidiaries		665	<b>(57)</b>
Contribution from a non-controlling shareholder of a subsidiary		-	<b>2</b>
Dividends paid to the sole shareholder of the Company		(4,761)	<b>(4,988)</b>
Dividend paid to non-controlling shareholders of subsidiaries		(35)	<b>(20)</b>
Proceeds from issue of ordinary shares		13	<b>32</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(6,010)</b>	<b>(6,509)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>326</b>	<b>(669)</b>
Exchange differences		9	<b>(14)</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year		2,882	<b>3,217</b>
End of year	33(d)	3,217	<b>2,534</b>

\* See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 10 to 86 form part of these consolidated financial statements.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1 GENERAL INFORMATION

HKT Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on January 18, 2008. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications business 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.

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

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

##### a. Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. A summary of the principal accounting policies adopted by the Group is set out below.

##### b. Basis of preparation of the financial statements

The following new or amended Hong Kong Financial Reporting Standards (the “new HKFRSs”) are mandatory for the first time for the financial year beginning January 1, 2018 and the impacts of the adoption are disclosed in note 4.

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

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

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

The Group has early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 and the impact of the adoption is disclosed in note 4. The Group has not early adopted any other new HKFRSs that are not yet effective for the current accounting period, details of which are set out in note 39.

The consolidated financial statements for the year ended December 31, 2018 comprise the financial statements of the Group, and the Group’s interests in associates and joint ventures.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- financial assets at fair value through profit or loss (see note 2(n));
- financial assets at fair value through other comprehensive income (see note 2(n)); and
- derivative financial instruments (see note 2(p)).

As at December 31, 2018, the current liabilities of the Group exceeded its current assets by approximately HK\$8,641 million. Included in the current liabilities were current portion of contract liabilities of HK\$1,415 million recognized under HKFRS 15, which will gradually reduce over the terms of the contracts through the satisfaction of performance obligations. Management of the Group anticipates the net cash inflows from its operations, together with the ability to draw down from available bank loan facilities and the sufficient financial support from HKT to the Group, would be sufficient to enable the Group to meet its liabilities as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

##### c. Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKFRS 9 (2014) in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless other measurement basis is required by Hong Kong Financial Reporting Standards.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### c. Subsidiaries and non-controlling interests (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in the consolidated income statement.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For subsidiaries which have accounting year ends different from the Group, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Group.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains.

##### d. Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method and are initially recorded at cost. The Group's interests in associates include goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition changes in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax items of the associates' other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment using the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to the consolidated income statement where appropriate.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### d. Associates (continued)

Adjustments have been made to the financial statements of the associates when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

##### e. Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Group classified joint arrangements as joint ventures when the Group has rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method, as described in note 2(d).

Adjustments have been made to the financial statements of joint ventures when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

##### f. Gaining or losing control

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

##### g. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(o)(ii)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(h)); and
- other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the consolidated income statement as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the consolidated income statement on the date of retirement or disposal.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### g. Property, plant and equipment (continued)

Projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 20 years
Transmission plant	5 to 36 years
Other plant and equipment	1 to 20 years

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at the end of each reporting period.

##### h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

##### i. Assets leased to the Group

Leases are initially recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

##### ii. Assets leased out by the Group

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### **h. Leased assets (continued)**

##### **ii. Assets leased out by the Group (continued)**

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o)(ii). Revenue arising from operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Where the Group leases out assets under finance leases, the present value of lease receipts is recognized as a receivable. Each lease receipt is allocated between the receivable and interest income so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt is recognized in the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

##### **i. Goodwill**

Goodwill represents the excess of the cost of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested at least annually for impairment (see note 2(o)(ii)). In respect of associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

On disposal of a CGU or part of a CGU, an associate or a joint venture during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

##### **j. Intangible assets (other than goodwill)**

##### **i. Carrier licences**

Carrier licences to establish and maintain the telecommunications network and to provide telecommunications services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded as an intangible asset together with the related obligations. Where the Group has the right to return a licence and expect to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunications services.

The difference between the discounted value and the total minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated income statement as incurred.

##### **ii. Software**

Costs incurred to acquire, develop or enhance scientific or technical knowledge, and design and implement new process or systems, licences and market knowledge are capitalized as intangible assets if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.



## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### j. Intangible assets (other than goodwill) (continued)

###### ii. Software (continued)

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- adequate technical, financial and other resources are available to complete the development and to use the software;
- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and
- the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that do not meet the above criteria are expensed in the consolidated income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 to 10 years.

###### iii. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 10 years

The assets' useful lives and their amortization methods are reviewed annually.

##### k. Fulfillment costs

Direct costs incurred in fulfilling a contract with a customer are capitalized as an asset to the extent that the cost generates or enhances resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Fulfillment costs are amortized on a straight-line basis over the expected life of the customer contract.

##### l. Customer acquisition costs

Incremental costs incurred to obtain a contract with a customer are capitalized as customer acquisition costs if the Group expects to recover those costs. Costs of obtaining a contract are amortized on a straight-line basis over the expected life of the customer contract.

##### m. Contract assets/liabilities

In the case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received and unconditional rights to contract consideration to date, a contract asset is recognized. If the total payments received and unconditional rights to contract consideration to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### n. Investments in debt and equity securities

###### *Classification*

The Group classifies its investments in debt and equity securities, other than interests in subsidiaries, associates and joint arrangements, as:

- those to be measured subsequently at fair value (at either fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”)); and
- those to be measured at amortized cost.

The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instrument at FVOCI.

The Group reclassifies debt instruments when and only when their business model for managing those assets changes.

###### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownerships.

###### *Initial measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

###### *Subsequent measurement*

###### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost is recognized in the consolidated income statement when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.
- FVOCI: Assets that are held for collection of contractual cash flows and for sale, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses, interest income using the effective interest rate method and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to the consolidated income statement and recognized in other gains/(losses), net.
- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognized and presented net in the consolidated income statement within other gains/(losses), net in the period in which it arises.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### n. Investments in debt and equity securities (continued)

###### Subsequent measurement (continued)

###### Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment, any balance within the other comprehensive income for these equity investments is reclassified to retained profits. Dividends from such investments continue to be recognized in the consolidated income statement as other gains/(losses), net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses), net in the consolidated income statement as applicable.

Impairment losses (and reversal of impairment losses) on equity instruments measured at FVOCI are not reported separately from other changes in fair value.

##### o. Impairment of assets

###### i. Investment in debt instruments and trade and other receivables

The Group assesses on forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost or FVOCI, and trade and other receivables carried at amortized cost.

For investments in debt instruments and other receivables, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forwarding-looking information. Considerations may include:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is delinquent and in default status when there are unsettled amounts remaining on the account on the day after the invoice due date.

At each reporting date, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When measuring expected credit losses, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and possibility that no credit loss occurs.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### **o. Impairment of assets (continued)**

##### **i. Investment in debt instruments and trade and other receivables (continued)**

Financial assets are written off when there is no reasonable expectation of recovery. The Group categorizes a financial asset for write off when a debtor fails to make contractual payments for a period greater than predefined limit. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated income statement.

##### **ii. Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment.

##### **- Calculation of recoverable amount**

The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. Fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

##### **- Recognition of impairment losses**

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

##### **- Reversals of impairment losses**

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

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

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### p. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(q)).

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is 12 months or less than 12 months. Trading derivatives are classified as current assets or liabilities.

##### q. Hedging

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

##### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement, within finance costs.

When forward contracts are used to hedge forecast transactions, the Group designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedging reserve within equity. The change in the forward element is recognized in the consolidated income statement.

When cross currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognized in the hedging reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognized in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the consolidated income statement, as follows:

- The gain or loss relating to the effective portion of forward contracts is recognized in the consolidated income statement as the hedged item affects profit or loss.
- The gain or loss relating to the effective portion of the cross currency swap contracts hedging borrowings in foreign currency is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs and affects profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated income statement.

Hedge ineffectiveness is recognized in the consolidated income statement within finance costs.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### r. Inventories

Inventories consist of trading inventories, purchased parts and materials and consumable inventories.

Trading inventories and purchased parts and materials are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Consumable inventories, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

##### s. Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognized at fair value. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 2(o)(i)).

##### t. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (other than restricted cash), and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition and form an integral part of the Group's cash management.

##### u. Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

##### v. Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

##### w. Provisions and contingent liabilities

Provisions are recognized when (i) the Group has a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (*CONTINUED*)

##### x. Revenue recognition

Telecommunications services comprise local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as outsourcing, consulting and contact centers.

Local telephony, local data and broadband, international telecommunications and mobile businesses earn revenue primarily by providing access to and usage of the telecommunications network locally and internationally as well as delivering handsets, equipment and gifts, which are considered as separate performance obligations, respectively.

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Group's activities. Revenue is recognized when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time.

The Group often enters into bundled sale contracts with customers in which, apart from provision of telecommunications and other services, the Group has certain other performance obligations to customers such as delivery of handsets, equipment and gifts. In general, customers are invoiced according to agreed billing schedules set out in the customer contracts. When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The costs of respective handsets, equipment and gifts delivered are required to be recognized as cost of sales when the corresponding revenue is recognized.

For the telecommunications services, revenue is recognized over time based on the output method, either as the service allowance units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of services to the customer. For service plan based on usage, where monthly usage exceeds the allowance, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognized when the customer exercises the option. Other telecommunications services income are recognized when services are rendered.

For the sales of the handsets, equipment and gifts, revenue is generally recognized when control passes to the customer, being when the products are delivered to and accepted by the customer. The customer has full direction over the handsets, equipment and gifts and there are no unfulfilled obligations that can affect the customers' acceptance of those goods.

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

A financing component, if any, might exist when timing of the payment for goods by the customers, which occurs over the contract term, differs from the satisfaction of the performance obligation, which occurs at contract inception upon transfer of goods to the customer. Such financing component is not significant to the Group.

##### y. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

##### z. Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### aa. Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

##### ab. Income tax

- i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.
- ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous years.
- iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

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



## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### ab. Income tax (continued)

##### iii. (continued)

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

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

- iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:
- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
  - in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

##### ac. Employee benefits

##### i. Short-term employee benefits

Salaries, annual bonuses, annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### ii. Retirement benefits

The Group operates defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies in the Group.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the defined contribution schemes are recognized as an expense in the consolidated income statement in the period to which the contributions relate.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### ac. Employee benefits (continued)

##### iii. Share-based payments

PCCW, the HKT Trust and HKT operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW (the “PCCW Shares”) and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in capital contribution from members in respect of employee share-based compensation under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years regarding the options is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vests (with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity). The equity amount remains in the capital contribution from members in respect of employee share-based compensation under equity.

Share Stapled Units may be granted to employees at nil consideration under the HKT’s Share Stapled Units award schemes, under which the awarded Share Stapled Units are either newly issued at issue price (the “HKT Share Stapled Units Subscription Scheme”) or are purchased from the open market (the “HKT Share Stapled Units Purchase Scheme”).

PCCW also grants PCCW Shares to employees of PCCW and its participating companies at nil consideration under its share award schemes, under which the awarded PCCW Shares are either newly issued at issue price (the “PCCW Subscription Scheme”) or are purchased from the open market (the “PCCW Purchase Scheme”).

Awards under the share award schemes are accounted for as cash-settled share-based payments. The fair value of the awarded PCCW Shares and Share Stapled Units representing the quoted market price of PCCW shares and Share Stapled Units purchased from the open market under the PCCW Purchase Scheme/HKT Share Stapled Units Purchase Scheme and the issue price of PCCW Shares and Share Stapled Units under the PCCW Subscription Scheme/HKT Share Stapled Units Subscription Scheme are recognized as financial assets at fair value through profit or loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW Shares and Share Stapled Units are recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW Shares and Share Stapled Units that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW Shares and Share Stapled Units that vests (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW Shares and Share Stapled Units recognized in the financial assets at fair value through profit or loss is offset with the obligation.

##### iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the number of employees affected, or, after individual employees have been advised of the specific terms.

##### ad. Translation of foreign currencies

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the Group’s functional and presentation currency.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### **ad. Translation of foreign currencies (continued)**

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities, such as equity instruments at FVPL, are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as equity instruments measured at FVOCI, are included in the fair value gain or loss in the financial assets at FVOCI reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Items of foreign operations in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relates to that foreign operation is included in the calculation of the profit or loss on disposal.

##### **ae. Related parties**

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

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- ii. the Group and the party are subject to common control;
- iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;
- iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
- v. the party is a close family member of a party referred to in note (i) above or is an entity under the control, joint control or significant influence of such party;
- vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group; or
- vii. the entity, or any member of the Group of which it is a part, provides key management personnel services to the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### af. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group’s senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to those available to other external parties for similar services. Inter-segment transactions are eliminated in full in preparing the consolidated financial statements.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment, and interests in leasehold land) that are expected to be used for more than one year.

##### ag. Dividend distribution

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

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 17 and 35 contain information about the assumptions and its risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Group’s accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

- i. Impairment of assets (other than trade and other receivables)  
At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:
  - property, plant and equipment;
  - right-of-use assets;
  - interests in leasehold land;
  - fulfillment costs;
  - customer acquisition costs;
  - intangible assets;
  - interests in associates and joint ventures; and
  - goodwill.

If any such indication exists, the asset’s recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group’s interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group’s telecommunications services and infrastructure businesses in Hong Kong.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

i. Impairment of assets (other than trade and other receivables) (continued)

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable amount, representing the greater of the asset's fair value less costs of disposal or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving a reasonable estimate of the recoverable amount, the Group may perform such assessment utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of any asset.

ii. Revenue recognition

Under certain arrangements, apart from provision of telecommunications and other services, the Group has certain other performance obligations to customers such as delivery of handsets, equipment and gifts. When such multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The Group is required to exercise considerable judgement in relation to estimating the stand-alone selling price.

Contract revenue is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract cost incurred will be recoverable. The Group is required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

iii. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and appropriate tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

iv. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are queries raised by the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these queries or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (*CONTINUED*)

- v. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

The Group has significant property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs. The Group is required to estimate the lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The lives are estimated at the time of purchase of these assets or direct costs incurred in fulfilling or acquiring a contract with a customer after considering future technology changes, business developments, the Group's strategies and expected life of customer contracts. The Group performs annual reviews to assess the appropriateness of the estimated lives. Such reviews take into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancements in technology. The Group extends or shortens the lives according to the results of the reviews.

- vi. Lease term and discount rate determination

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Group is required to exercise considerable judgement in relation to determine the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs**

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

**a. Impacts on the financial statements**

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

In HK\$ million

Consolidated income statement for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 4(b))	HKFRS 16 (note 4(c))	Restated
Revenue	33,258	(161)	(30)	33,067
Cost of sales	(14,161)	(2,207)	396	(15,972)
General and administrative expenses	(11,779)	1,938	(289)	(10,130)
Finance costs, net	(1,139)	-	(72)	(1,211)
Profit before income tax*	5,996	(430)	5	5,571
Income tax	(962)	71	2	(889)
<b>Profit for the year*</b>	<b>5,034</b>	<b>(359)</b>	<b>7</b>	<b>4,682</b>
Attributable to:				
Equity holder of the Company	5,022	(359)	7	4,670
Non-controlling interests	12	-	-	12
<b>Profit for the year</b>	<b>5,034</b>	<b>(359)</b>	<b>7</b>	<b>4,682</b>

In HK\$ million

Consolidated statement of comprehensive income for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 4(b))	HKFRS 16 (note 4(c))	Restated
Profit for the year	5,034	(359)	7	4,682
Exchange differences on translating foreign operations	175	-	1	176
<b>Total comprehensive income for the year*</b>	<b>4,597</b>	<b>(359)</b>	<b>8</b>	<b>4,246</b>
Attributable to:				
Equity holder of the Company	4,585	(359)	8	4,234
Non-controlling interests	12	-	-	12
<b>Total comprehensive income for the year</b>	<b>4,597</b>	<b>(359)</b>	<b>8</b>	<b>4,246</b>

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

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)**

**a. Impacts on the financial statements (continued)**

In HK\$ million

Consolidated statement of financial position (extract)	As at December 31, 2016	As originally presented	HKFRS 15 (note 4(b))	HKFRS 16 (note 4(c))	As at January 1, 2017 Restated
	<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>					
Right-of-use assets	-	-	-	2,555	2,555
Intangible assets	10,695	(2,543)	-	-	8,152
Fulfillment costs	-	1,378	-	-	1,378
Customer acquisition costs	-	648	-	-	648
Contract assets	-	349	-	-	349
Other non-current assets	610	-	-	8	618
<b>Current assets</b>					
Prepayments, deposits and other current assets	5,217	(2,344)	-	(92)	2,781
Contract assets	-	771	-	-	771
<b>Current liabilities</b>					
Accruals and other payables	(5,029)	-	-	50	(4,979)
Advances from customers	(2,126)	1,861	-	-	(265)
Contract liabilities	-	(1,276)	-	-	(1,276)
Lease liabilities	-	-	-	(1,414)	(1,414)
Current income tax liabilities	(870)	200	-	11	(659)
<b>Non-current liabilities</b>					
Deferred income	(1,021)	1,021	-	-	-
Contract liabilities	-	(801)	-	-	(801)
Lease liabilities	-	-	-	(1,200)	(1,200)
<b>Net assets*</b>	<b>31,946</b>	<b>(736)</b>	<b>(82)</b>	<b>(82)</b>	<b>31,128</b>
<b>CAPITAL AND RESERVES</b>					
Reserves	26,922	(736)	-	(82)	26,104
<b>Total equity*</b>	<b>31,946</b>	<b>(736)</b>	<b>(82)</b>	<b>(82)</b>	<b>31,128</b>

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



**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)**

**a. Impacts on the financial statements (continued)**

In HK\$ million

	As at December 31, 2017			As at December 31, 2017		HKFRS 9 (2014)	As at January 1, 2018
Consolidated statement of financial position (extract)	As originally presented	HKFRS 15 (note 4(b))	HKFRS 16 (note 4(c))	Restated		(note 4(d))	Restated
<b>ASSETS AND LIABILITIES</b>							
<b>Non-current assets</b>							
Right-of-use assets	-	-	2,220	2,220	-	-	2,220
Intangible assets	10,895	(2,929)	-	7,966	-	-	7,966
Fulfillment costs	-	1,378	-	1,378	-	-	1,378
Customer acquisition costs	-	611	-	611	-	-	611
Contract assets	-	350	-	350	-	-	350
Available-for-sale financial assets	77	-	-	77	(77)	-	-
Financial assets at FVOCI	-	-	-	-	77	-	77
Deferred income tax assets	466	-	2	468	-	-	468
Other non-current assets	692	-	150	842	-	-	842
<b>Current assets</b>							
Prepayments, deposits and other current assets	5,480	(2,665)	(47)	2,768	-	-	2,768
Contract assets	-	737	-	737	-	-	737
<b>Current liabilities</b>							
Accruals and other payables	(5,171)	-	54	(5,117)	-	-	(5,117)
Advances from customers	(2,326)	2,085	-	(241)	-	-	(241)
Contract liabilities	-	(1,288)	-	(1,288)	-	-	(1,288)
Lease liabilities	-	-	(1,157)	(1,157)	-	-	(1,157)
Current income tax liabilities	(998)	271	11	(716)	-	-	(716)
<b>Non-current liabilities</b>							
Deferred income	(1,307)	1,307	-	-	-	-	-
Contract liabilities	-	(952)	-	(952)	-	-	(952)
Lease liabilities	-	-	(1,307)	(1,307)	-	-	(1,307)
<b>Net assets*</b>	<b>31,760</b>	<b>(1,095)</b>	<b>(74)</b>	<b>30,591</b>	<b>-</b>	<b>-</b>	<b>30,591</b>
<b>CAPITAL AND RESERVES</b>							
Reserves	26,759	(1,095)	(74)	25,590	-	-	25,590
<b>Total equity*</b>	<b>31,760</b>	<b>(1,095)</b>	<b>(74)</b>	<b>30,591</b>	<b>-</b>	<b>-</b>	<b>30,591</b>

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

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

##### a. Impacts on the financial statements (continued)

In HK\$ million

Consolidated statement of cash flows for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 4(b))	HKFRS 16 (note 4(c))	Restated
Net cash generated from operating activities	12,156	(3,511)	1,630	10,275
Net cash used in investing activities	(7,481)	3,511	31	(3,939)
Net cash used in financing activities	(4,349)	-	(1,661)	(6,010)
<b>Net increase in cash and cash equivalents</b>	<b>326</b>	<b>-</b>	<b>-</b>	<b>326</b>

##### b. HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

##### b. HKFRS 15 *Revenue from Contracts with Customers* (continued)

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 4(a) above are restated, resulting in a decrease in retained profits attributable to equity holder of the Company as at December 31, 2016 and profit attributable to equity holder of the Company for the year ended December 31, 2017 of HK\$736 million and HK\$359 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and decreased by HK\$2,368 million for the year ended December 31, 2017.

For the Group's consolidated statement of cash flows, certain items including cash outflow for certain contract related costs previously capitalized before HKFRS 15 adoption are required to be reclassified to operating activities from investing activities. Nevertheless, the Group's total net cash flow is unaffected.

##### c. HKFRS 16 *Leases*

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

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

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

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

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by certain items as set out in note 2(h). The right-of-use assets were recognized in the consolidated statement of financial position. Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

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

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 4(a) above are restated, resulting in a decrease in retained profits attributable to equity holder of the Company as at December 31, 2016 of HK\$82 million and an increase in profit attributable to equity holder of the Company for the year ended December 31, 2017 of HK\$7 million. The Group's EBITDA as defined and disclosed in the segment information is also restated and increased by HK\$1,656 million for the year ended December 31, 2017.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 4 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (*CONTINUED*)

##### c. HKFRS 16 *Leases (continued)*

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

##### d. HKFRS 9 (2014) *Financial Instruments*

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

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

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

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

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

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

On January 1, 2018, the cumulative fair value gains related to available-for-sale financial assets amounting to HK\$47 million were transferred from available-for-sale reserve ("AFS reserve") to retained profits.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 5 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

In HK\$ million	Note	2017	2018
Telecommunications service fees received or receivable from a substantial shareholder of PCCW	a	74	78
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	a	88	87
Telecommunications service fees, consultancy service charges and interest income received or receivable from joint ventures	a	32	34
Telecommunications service fees paid or payable to joint ventures	a	125	130
Consultancy service charges and interest income received or receivable from an associate	a	16	14
Telecommunications service fees paid or payable to an associate	a	12	6
Telecommunications service fees, connectivity service fees, equipment sales and insurance premium received or receivables from related parties under a common shareholder	a	7	52
Insurance premium and fronting service fees, equipment purchase, outsourcing fees and rental charges paid or payable to related parties under a common shareholder	a	144	184
Telecommunications service fees, management fee, equipment sales and other recharge costs received or receivable from fellow subsidiaries	a	1,582	1,822
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	a	2,569	2,799
Rental and facilities management charges paid or payable to fellow subsidiaries	a	143	2
Interest paid or payable to the immediate holding company	a	63	119
Key management compensation	b	65	86

a. The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

#### b. Details of key management compensation

In HK\$ million	2017	2018
Salaries and other short-term employee benefits	44	42
Share-based compensation	19	23
Termination benefits	-	19
Post-employment benefits	2	2
	65	86

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 5 RELATED PARTY TRANSACTIONS (CONTINUED)

##### c. Balances with related companies and fellow subsidiaries

Other than as specified in notes 19 and 20, the net amounts due to fellow subsidiaries and the net amount due from related companies as at December 31, 2017 and 2018 are unsecured, non-interest bearing and have no fixed repayment terms.

##### d. Amount due to the immediate holding company

The balance is unsecured, non-interest bearing and has no fixed repayment terms, except for the loan payable to the immediate holding company of HK\$7,204 million as at December 31, 2018 (2017: HK\$7,236 million) which bears interest at Hong Kong Interbank Offered Rate (“HIBOR”) plus 0.3% per annum (2017: same) and repayable within one year.

#### 6 SEGMENT INFORMATION

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:

- Telecommunications Services (“TSS”) is the leading provider of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.
- Mobile includes the Group’s mobile telecommunications businesses in Hong Kong.
- Other businesses of the Group (“Other Businesses”) primarily comprises new business areas such as Tap & Go mobile payment service and The Club program, and corporate support functions.

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

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6 SEGMENT INFORMATION (CONTINUED)**

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

In HK\$ million	TSS	Mobile	2017 (Restated) Other Businesses	Eliminations	Total
<b>Revenue</b>					
External revenue	20,674	12,238	155	-	33,067
Inter-segment revenue	850	-	-	(850)	-
<b>Total revenue</b>	<b>21,524</b>	<b>12,238</b>	<b>155</b>	<b>(850)</b>	<b>33,067</b>
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,453	4,150	134	(101)	5,636
Over time	20,010	8,088	20	(749)	27,369
Revenue from other sources:					
Rental income	61	-	1	-	62
	21,524	12,238	155	(850)	33,067
<b>Results</b>					
EBITDA	8,060	4,816	(584)	-	12,292
<b>Other information</b>					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,641	880	134	-	2,655

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6 SEGMENT INFORMATION (CONTINUED)**

In HK\$ million	TSS	Mobile	2018 Other Businesses	Eliminations	Total
<b>Revenue</b>					
External revenue	21,128	13,825	234	-	35,187
Inter-segment revenue	646	184	6	(836)	-
<b>Total revenue</b>	<b>21,774</b>	<b>14,009</b>	<b>240</b>	<b>(836)</b>	<b>35,187</b>
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,667	5,757	206	(208)	7,422
Over time	20,046	8,252	33	(628)	27,703
Revenue from other sources:					
Rental income	61	-	1	-	62
	<b>21,774</b>	<b>14,009</b>	<b>240</b>	<b>(836)</b>	<b>35,187</b>
<b>Results</b>					
EBITDA	8,204	4,959	(598)	-	12,565
<b>Other information</b>					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,572	873	143	-	2,588

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

In HK\$ million	2017 (Restated)	2018
Total segment EBITDA	12,292	12,565
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	2	1
Depreciation and amortization	(5,329)	(5,343)
Other (losses)/gains, net	(143)	2
Finance costs, net	(1,211)	(1,468)
Share of results of associates	(12)	-
Share of results of joint ventures	(28)	(29)
<b>Profit before income tax</b>	<b>5,571</b>	<b>5,728</b>



## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 6 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 the customers.

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

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$82,719 million as at December 31, 2018 (2017 (restated): HK\$80,195 million). The total of these non-current assets located in other countries are HK\$2,896 million as at December 31, 2018 (2017 (restated): HK\$2,909 million).

#### 7 REVENUE

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

##### a. Revenue recognition in relation to contract liabilities

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

##### b. Unsatisfied long-term fixed-price contracts

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

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

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

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**8 OTHER (LOSSES)/GAINS, NET**

In HK\$ million	2017	2018
Net realized gain on disposal on an AFS financial asset	6	-
Provision for impairment on interests in associates	(154)	-
Others	5	2
	(143)	2

**9 PROFIT BEFORE INCOME TAX**

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

**a. Staff costs**

In HK\$ million	2017	2018
Salaries, bonuses and other benefits	2,453	2,271
Share-based compensation expenses	50	55
Retirement costs for staff under defined contribution retirement schemes	309	302
	2,812	2,628
Less: Staff costs included in cost of sales	(844)	(812)
	1,968	1,816

**b. Other items**

In HK\$ million	2017 (Restated)	2018
Charging/(crediting):		
Impairment loss for trade receivables	259	211
Provision for inventory obsolescence	12	8
Depreciation of property, plant and equipment	1,381	1,324
Depreciation of right-of-use assets – land and buildings	1,322	1,262
Depreciation of right-of-use assets – network capacity and equipment	260	289
Amortization of land lease premium – interests in leasehold land	13	13
Amortization of intangible assets	1,163	1,186
Amortization of fulfillment costs	427	417
Amortization of customer acquisition costs	763	852
Cost of inventories sold	6,294	7,960
Cost of sales, excluding inventories sold	9,678	10,020
Exchange loss/(gain), net	311	(6)
Less: Cash flow hedges - transferred from equity	(332)	35
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(2)	(1)
Auditor's remuneration	12	11
Short-term leases expenses	50	84
Low-value assets leases expenses	3	2
Variable lease payment expenses	1	2

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**10 FINANCE COSTS, NET**

In HK\$ million	2017 (Restated)	2018
Interest expense, excluding interest expense on lease liabilities	(1,157)	<b>(1,330)</b>
Interest expense on lease liabilities	(77)	<b>(96)</b>
Notional accretion on carrier licence fee liabilities	(52)	<b>(44)</b>
Other finance costs	(65)	<b>(124)</b>
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contract – cash flow hedge for foreign currency risk	51	<b>19</b>
Hedge ineffectiveness: interest rate swap contract – cash flow hedge for interest rate risk	3	<b>2</b>
Impact of re-designation of fair value hedges	(16)	<b>(16)</b>
	(1,313)	<b>(1,589)</b>
Interest capitalized in property, plant and equipment ( <i>note a</i> )	53	<b>52</b>
<b>Total finance costs</b>	<b>(1,260)</b>	<b>(1,537)</b>
Interest income	44	<b>60</b>
Interest income from net investment in leases	5	<b>9</b>
<b>Total interest income</b>	<b>49</b>	<b>69</b>
<b>Finance costs, net</b>	<b>(1,211)</b>	<b>(1,468)</b>

- a. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.05% to 3.31% for the year ended December 31, 2018 (2017: from 3.07% to 3.16%).

**11 DIRECTORS' EMOLUMENTS**

The salaries and other short-term employee benefits and post-employment benefits of approximately HK\$79,048,000 and HK\$1,560,000 (2017: HK\$66,308,000 and HK\$1,999,000) respectively cover the compensation for three directors of the Company for the year (2017: two). Upon the retirement of Mr Alexander Anthony Arena, he received termination benefits of a total amount of approximately HK\$70 million from both the Group and PCCW during the year ended December 31, 2018 (2017: nil).

**12 INCOME TAX**

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

In HK\$ million	2017 (Restated)	2018
Hong Kong profits tax		
- provision for current year	758	<b>592</b>
- over provision in respect of prior years	(34)	<b>(14)</b>
Overseas tax		
- provision for current year	33	<b>30</b>
- under/(over) provision in respect of prior years	5	<b>(23)</b>
<b>Movement of deferred income tax (<i>note 31(a)</i>)</b>	<b>127</b>	<b>407</b>
	889	<b>992</b>

**HKT GROUP HOLDINGS LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****12 INCOME TAX (CONTINUED)****a. Income tax in the consolidated income statement represents: (continued)**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

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

In HK\$ million	2017 (Restated)	2018
Profit before income tax	5,571	5,728
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2017: 16.5%)	919	946
Effect of different tax rates of subsidiaries operating overseas	12	7
Income not subject to tax	(26)	(29)
Expenses not deductible for tax purposes	99	60
Tax losses not recognized	78	36
Over provision in respect of prior years, net	(29)	(37)
Utilization of previously unrecognized tax losses	(24)	(12)
Recognition of tax losses	(292)	(18)
Recognition of previously unrecognized temporary differences	65	34
Effect on change of corporate tax rate	80	-
Net losses of associates and joint ventures not deductible for tax purpose	7	5
Income tax expense	889	992

**13 DIVIDENDS**

In HK\$ million	2017	2018
Interim dividend declared and paid in respect of the current year of 3.47 HK cents (2017: 3.35 HK cents) per ordinary share of the Company	2,129	2,205
Final dividend declared in respect of previous financial year, approved and paid during the year of 4.38 HK cents (2017: 4.14 HK cents) per ordinary share of the Company	2,632	2,783
Final dividend declared after the end of the reporting period of 4.66 HK cents (2017: 4.38 HK cents) per ordinary share of the Company	2,783	2,966

The final dividend declared after the end of the reporting period has not been recognized as liabilities as at the end of the reporting period.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**14 PROPERTY, PLANT AND EQUIPMENT**

In HK\$ million	2017					Total
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
<b>Cost</b>						
Beginning of year	1,389	21,301	24,371	11,786	1,726	60,573
Additions	-	490	249	401	1,515	2,655
Transfers	-	579	481	265	(1,325)	-
Disposals	-	(242)	(127)	(69)	-	(438)
Exchange differences	-	22	191	31	-	244
End of year	1,389	22,150	25,165	12,414	1,916	63,034
<b>Accumulated depreciation and impairment</b>						
Beginning of year	655	17,318	15,531	9,050	-	42,554
Charge for the year	29	405	475	472	-	1,381
Disposals	-	(225)	(127)	(66)	-	(418)
Exchange differences	-	21	95	15	-	131
End of year	684	17,519	15,974	9,471	-	43,648
<b>Net book value</b>						
End of year	705	4,631	9,191	2,943	1,916	19,386
Beginning of year	734	3,983	8,840	2,736	1,726	18,019

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

In HK\$ million	2018					Total
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
<b>Cost</b>						
Beginning of year	1,389	22,150	25,165	12,414	1,916	63,034
Additions	-	488	280	211	1,609	2,588
Transfers	-	98	312	493	(903)	-
Disposals	-	(240)	(26)	(167)	-	(433)
Exchange differences	-	(21)	(68)	(24)	-	(113)
End of year	1,389	22,475	25,663	12,927	2,622	65,076
<b>Accumulated depreciation and impairment</b>						
Beginning of year	684	17,519	15,974	9,471	-	43,648
Charge for the year	29	387	479	429	-	1,324
Disposals	-	(240)	(26)	(165)	-	(431)
Exchange differences	-	(17)	(27)	(22)	-	(66)
End of year	713	17,649	16,400	9,713	-	44,475
<b>Net book value</b>						
End of year	676	4,826	9,263	3,214	2,622	20,601
Beginning of year	705	4,631	9,191	2,943	1,916	19,386

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

During the year ended December 31, 2017, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in changes in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group's profit attributable to the equity holder of the Company for the year ended December 31, 2017 increased by HK\$115 million and the equity attributable to the equity holder of the Company as at December 31, 2017 increased by HK\$115 million.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**15 RIGHT-OF-USE ASSETS**

In HK\$ million	2017 (Restated)	<b>2018</b>
Land and buildings	1,782	<b>2,414</b>
Network capacity and equipment	438	<b>394</b>
<b>Total</b>	<b>2,220</b>	<b>2,808</b>

The Group obtains right to control the use of various land and buildings, and network capacity and equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 20 years. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes. The Group also sub-leases certain buildings whose lease terms are for the whole of the remaining term of the head lease and have classified the sub leases as finance leases.

Additions to the right-of-use assets during the year ended December 31, 2018 were HK\$2,302 million (2017: HK\$1,423 million).

During the year ended December 31, 2018, total cash outflow for leases of HK\$1,665 million (2017: HK\$1,661 million) was included in net cash used in financing activities.

**16 INTERESTS IN LEASEHOLD LAND**

In HK\$ million	2017	<b>2018</b>
<b>Cost</b>		
Beginning and end of year	536	<b>536</b>
<b>Accumulated amortization</b>		
Beginning of year	283	<b>296</b>
Charge for the year	13	<b>13</b>
End of year	296	<b>309</b>
<b>Net book value</b>		
End of year	240	<b>227</b>
Beginning of year	253	<b>240</b>

**17 GOODWILL**

In HK\$ million	2017	<b>2018</b>
<b>Cost</b>		
Beginning of year	49,787	<b>49,814</b>
Acquisition of a subsidiary	-	<b>3</b>
Exchange differences	27	<b>(12)</b>
End of year	49,814	<b>49,805</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**17 GOODWILL (CONTINUED)**

**Impairment tests for CGUs containing goodwill**

Goodwill is allocated to the Group's CGUs identified according to operating segments as follows:

In HK\$ million	2017 (Restated)	2018
TSS		
- Local telephony and data services	31,692	<b>31,693</b>
- Global	1,269	<b>1,259</b>
Mobile	16,853	<b>16,853</b>
<b>Total</b>	<b>49,814</b>	<b>49,805</b>

Due to restructuring of certain business units during 2018, goodwill attributable to certain CGUs has been reviewed and re-allocated accordingly. The comparative information is presented in line with current year's basis.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2017 and 2018 are as follows:

	2017				2018			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Pre-tax discount rate	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Pre-tax discount rate
TSS								
- Local telephony and data services	1%	1%	1%	7%	<b>2%</b>	<b>2%</b>	<b>1%</b>	<b>8%</b>
- Global	1%	6%	3%	9%	<b>1%</b>	<b>3%</b>	<b>3%</b>	<b>13%</b>
Mobile	1%	3%	2%	11%	<b>2%</b>	<b>3%</b>	<b>2%</b>	<b>12%</b>

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

There was no impairment required from the review on goodwill. A reasonably possible change in assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered necessary.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.



**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**18 INTANGIBLE ASSETS**

In HK\$ million	Trademarks	Carrier licences	2017 (Restated)		Total
			Customer base	Software	
<b>Cost</b>					
Beginning of year	1,858	5,075	2,763	1,820	11,516
Additions	-	103	-	869	972
Disposals	-	-	(1)	-	(1)
Exchange differences	4	-	5	-	9
End of year	1,862	5,178	2,767	2,689	12,496
<b>Accumulated amortization</b>					
Beginning of year	382	1,204	1,230	548	3,364
Charge for the year	93	413	460	197	1,163
Exchange differences	1	-	2	-	3
End of year	476	1,617	1,692	745	4,530
<b>Net book value</b>					
End of year	1,386	3,561	1,075	1,944	7,966
Beginning of year	1,476	3,871	1,533	1,272	8,152
In HK\$ million	Trademarks	Carrier licences	2018		Total
			Customer base	Software	
<b>Cost</b>					
Beginning of year	1,862	5,178	2,767	2,689	12,496
Additions	-	104	-	1,811	1,915
Write-off	-	(730)	-	-	(730)
Exchange differences	(3)	-	(3)	-	(6)
End of year	1,859	4,552	2,764	4,500	13,675
<b>Accumulated amortization</b>					
Beginning of year	476	1,617	1,692	745	4,530
Charge for the year	92	414	460	220	1,186
Write-off	-	(730)	-	-	(730)
Exchange differences	(1)	-	(1)	-	(2)
End of year	567	1,301	2,151	965	4,984
<b>Net book value</b>					
End of year	1,292	3,251	613	3,535	8,691
Beginning of year	1,386	3,561	1,075	1,944	7,966

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

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 19 INTERESTS IN ASSOCIATES

In HK\$ million	2017	2018
Share of net assets of associates	66	65
Loans due from associates, net	235	233
Provision for impairment	(301)	(298)
	-	-
Investments at cost, unlisted	115	113

During the year ended December 31, 2018, no provision for impairment was recognized in the consolidated income statement.

During the year ended December 31, 2017, provision for impairment of HK\$154 million was included in the other (losses)/ gains, net in the consolidated income statement. This was resulted from the revised expectation that the carrying amount of the associates is no longer recoverable.

As at December 31, 2018, loans due from associates comprised certain unsecured loans totaling HK\$160 million (2017: HK\$160 million) which bear interest at 3% per annum (2017: 4% per annum) and are repayable within 1 year (2017: same), certain secured loans totaling HK\$180 million (2017: HK\$180 million) which bear interest at 3% per annum (2017: 4% per annum) and are repayable within 1 year (2017: same) and a secured loan amounted to HK\$6 million (2017: HK\$8 million), which bears interest at 8% per annum (2017: same) and is repayable within 1 year (2017: repayable in 2 years). The amounts were considered as equity in nature for which full provision for impairment had been made as at December 31, 2017 and 2018.

a. As at December 31, 2017 and 2018, the Group considered that there was no principal associate.

#### b. Contingent liabilities in respect of the associates

The Group's contingent liabilities relating to its associates are disclosed in note 37. As at December 31, 2018, the Group had no share of contingent liabilities related to the associates (2017: nil).

#### c. Summarized unaudited financial information of the Group's associates

For the year ended December 31, 2018, the Group had not accounted for any share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates under equity method.

For the year ended December 31, 2017, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates that are accounted for using the equity method are HK\$12 million, nil and HK\$12 million, respectively.

#### d. Reconciliation of summarized financial information

As at December 31, 2018, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method is nil (2017: nil).

During the year ended December 31, 2018, the Group had unrecognized share of losses of associates of HK\$7 million (2017: nil). As at December 31, 2018, the Group had unrecognized accumulated share of losses of the associates of HK\$7 million (2017: nil).

#### 20 INTERESTS IN JOINT VENTURES

In HK\$ million	2017	2018
Share of net assets of joint ventures	146	146
Loan due from a joint venture, net	426	382
	572	528
Investments at cost, unlisted	207	207

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 20 INTERESTS IN JOINT VENTURES (CONTINUED)

As at December 31, 2018, the loan due from a joint venture of HK\$382 million (2017: HK\$426 million) bears interest at HIBOR plus 3% per annum (2017: same). The loan is unsecured and has no fixed terms of repayment. The amount is considered as part of the interests in joint ventures.

**a. As at December 31, 2018, particulars of the principal joint venture of the Group are as follows:**

Company name	Principal place of business/ Place of incorporation	Principal activities	Value of issued capital	Interest held by the Company		Measurement method
				Directly	Indirectly	
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK\$10,000	-	50%	Equity

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

The above principal joint venture is a private company and there is no quoted market price available for its shares.

#### **b. Commitments and contingent liabilities in respect of joint ventures**

As at December 31, 2018, the Group's share of its joint ventures' commitments were as follows:

In HK\$ million	2017	2018
Commitment to provide funding	86	73
Capital commitments		
- Authorized and contracted for acquisition of property, plant and equipment	40	26

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2018, the Group had no share of contingent liabilities related to the joint ventures (2017: nil).

#### **c. Summarized unaudited financial information of the Group's joint ventures**

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Group and being accounted for using the equity method:

In HK\$ million	As at December 31,	
	2017	2018
Non-current assets	961	900
Current assets		
Cash and cash equivalents	12	28
Other current assets (excluding cash and cash equivalents)	30	25
Total current assets	42	53
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(285)	(325)
Other current liabilities (including trade payables, accruals and other payables)	(88)	(65)
Total current liabilities	(373)	(390)

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**20 INTERESTS IN JOINT VENTURES (CONTINUED)**

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

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Group and being accounted for using the equity method (continued):

In HK\$ million	As at December 31,	
	2017	2018
Non-current liabilities		
Financial liabilities	(663)	<b>(604)</b>
Other non-current liabilities	(30)	<b>(33)</b>
Total non-current liabilities	(693)	<b>(637)</b>
Net liabilities	(63)	<b>(74)</b>
Equity attributable to equity holders	(63)	<b>(74)</b>
In HK\$ million	For the year ended December 31,	
	2017	2018
Revenue	245	<b>254</b>
Depreciation and amortization	(97)	<b>(102)</b>
Interest expense	(34)	<b>(43)</b>
Profit before income tax	1	<b>1</b>
Income tax	(15)	<b>(12)</b>
Loss after income tax and total comprehensive loss	(14)	<b>(11)</b>
Dividend received from the joint venture	-	-

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

For the year ended December 31, 2018, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial joint ventures that are accounted for using the equity method are HK\$24 million (2017: HK\$21 million), nil (2017: nil) and HK\$24 million (2017: HK\$21 million) respectively.

**d. Reconciliation of summarized unaudited financial information of the Group's joint ventures**

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in GBL, the principal joint venture.

In HK\$ million	2017	2018
<b>Net liabilities</b>		
Beginning of year	(49)	<b>(63)</b>
Loss and total comprehensive loss for the year	(14)	<b>(11)</b>
End of year	(63)	<b>(74)</b>
Interest in a joint venture	50%	<b>50%</b>
Interest in a joint venture	(32)	<b>(37)</b>
Loan due from a joint venture	426	<b>382</b>
<b>Carrying amount</b>	394	<b>345</b>

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 20 INTERESTS IN JOINT VENTURES (CONTINUED)

##### d. Reconciliation of summarized unaudited financial information of the Group's joint ventures (continued)

As at December 31, 2018, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method is HK\$183 million (2017: HK\$178 million).

During the year ended December 31, 2018, the Group did not have any unrecognized share of losses of joint ventures (2017: nil). As at December 31, 2018, there was no accumulated share of losses of the joint ventures unrecognized by the Group (2017: nil).

#### 21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	2017
<b>Unlisted equity securities</b>	
Balance as at January 1 and December 31,	77

Before the adoption of HKFRS 9 (2014) on January 1, 2018, AFS financial assets were non-derivative financial assets that were either designated in this category or not classified into financial assets at FVPL, held-to-maturity investments and loans and receivables.

The AFS financial assets were presented as non-current assets unless they would be matured, or management intended to dispose of them within 12 months from the end of the reporting period.

Investments were considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost.

As disclosed in note 4(d), after adoption of HKFRS 9 (2014), AFS financial assets were reclassified as financial assets at FVOCI as at January 1, 2018.

#### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK\$ million	2018
<b>Unlisted equity securities</b>	
Balance as at January 1 and December 31,	77

Financial assets at FVOCI comprise unlisted equity investments which were held for strategic purposes.

These investments were classified as AFS financial assets as at December 31, 2017. In the prior financial year, the Group had designated these investments as AFS financial assets where the Group did not intend to dispose these assets within 12 months from the end of the reporting period (see note 21). See note 4(d) for explanations regarding the change in accounting policies and the reclassification of the investments from AFS financial assets to financial assets at FVOCI.

#### 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK\$ million	2017	2018
Listed securities	48	20
Less: Securities held for employee share award schemes to be vested within one year classified as current assets	(28)	(12)
Non-current portion	20	8

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Financial assets at fair value through profit or loss represent PCCW Shares and Share Stapled Units acquired under the PCCW Share Award Schemes and the HKT Share Stapled Units Purchase Scheme, respectively. Refer to notes 28(b)(ii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT.

#### 24 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/ place of incorporation/ establishment and operation	Amount of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
HKT Services Limited	Hong Kong	HK\$1	-	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	HK\$9,945,156,001	-	100%	Provision of telecommunications services
電訊盈科科技(北京)有限公司 <sup>3</sup> (PCCW Technology (Beijing) Limited <sup>5</sup> )	The People's Republic of China ("The PRC")	RMB40,000,000	-	100%	System integration, software development and technical services consultancy
CSL Mobile Limited	Hong Kong	HK\$7,900,280,100 ordinary shares and HK\$1,254,000,000 non-voting deferred shares	-	100%	Provision of mobile services to its customers and the sale of mobile handsets and accessories
Sun Mobile Limited	Hong Kong	HK\$41,600,000	-	60% <sup>1</sup>	Provision of mobile telecommunications services to customers in Hong Kong
Gateway Global Communications Limited	United Kingdom	GBP1	-	100%	Provision of network-based telecommunications services to external customers and related companies
PCCW Global B.V.	Netherlands/ France	EUR18,000	-	100%	Sales, distribution and marketing of telecommunication services and products
PCCW Global, Inc.	Delaware, U.S.	US\$18.01	-	100%	Supply of broadband internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Media City	HK\$240,016,690.65	-	100%	Provision of network-based telecommunications services
PCCW Global (Japan) K.K.	Japan	JPY10,000,000	-	100%	Provision of telecommunications services

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**24 INTERESTS IN SUBSIDIARIES (CONTINUED)**

**a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows: (continued)**

Company name	Country/ place of incorporation/ establishment and operation	Amount of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
PCCW Global (HK) Limited	Hong Kong	HK\$10	-	100%	Provision of satellite-based and network-based telecommunications services
Gateway Communications S.A.S.	France	EUR10,000	-	100%	Provision of wholesale voice and data services
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S\$60,956,485.64	-	100%	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	-	75% <sup>2</sup>	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
廣州電盈綜合客戶服務技術發展有限公司 <sup>3</sup> (PCCW Customer Management Technology and Services (Guangzhou) Limited <sup>5</sup> )	The PRC	HK\$93,240,000	-	100%	Customer service and consultancy
HKT Teleservices International Limited	Hong Kong	HK\$350,000,002	-	100%	Provision of customer relationship management and customer contact management solutions and services
HKT Teleservices (US), Inc.	Nebraska, U.S.	US\$1,169 <sup>4</sup>	-	100%	Provision of call center and telemarketing services
HKT Payment Limited	Hong Kong	HK\$480,000,000	-	100%	Issue of stored value facilities in Hong Kong

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

**Notes:**

1. The equity interest held by non-controlling interest is 40% as at December 31, 2018.
2. The equity interest held by non-controlling interest is 25% as at December 31, 2018.
3. Represents a wholly foreign owned enterprise.
4. Excluding the treasury stock.
5. Unofficial company name.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 24 INTERESTS IN SUBSIDIARIES (CONTINUED)

##### b. Non-controlling interests of the Group's subsidiaries

The total non-controlling interests as at December 31, 2018 were HK\$39 million (2017: HK\$40 million), of which HK\$44 million (2017: HK\$33 million) was attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

#### 25 CURRENT ASSETS AND LIABILITIES

##### a. Inventories

In HK\$ million	2017	2018
Purchased parts and materials	331	610
Finished goods	359	388
Consumable inventories	59	82
	749	1,080

##### b. Trade receivables, net

In HK\$ million	2017	2018
Trade receivables (note i)	2,970	3,862
Less: loss allowance (note ii)	(183)	(135)
Trade receivables, net	2,787	3,727

The balance represents amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days from the date of invoice and therefore are all classified as current. Details about the Group's impairment policies are provided in note 2(o)(i).

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

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

In HK\$ million	2017	2018
1 - 30 days	2,008	2,889
31 - 60 days	207	288
61 - 90 days	170	155
91 - 120 days	99	99
Over 120 days	486	431
	2,970	3,862

ii. Impairment for trade receivables

The Group applies the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward looking information on macroeconomic factors, if material. On that basis, the loss allowance as at December 31, 2018 is determined as follows:



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**25 CURRENT ASSETS AND LIABILITIES (CONTINUED)**

**b. Trade receivables, net (continued)**

ii. Impairment for trade receivables (continued)

Expected credit loss rate	<b>2018</b>
Current	<b>1%</b>
1 - 120 days past due	<b>2%</b>
Over 120 days past due	<b>31%</b>

In the prior years, the impairment of trade receivables was assessed based on the incurred loss model. The trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. The adoption of the new impairment model as at January 1, 2018 has not resulted in material impact on the carrying amount of the loss allowance.

The movements in the loss allowance during the year are as follows:

In HK\$ million	2017	<b>2018</b>
Beginning of year	190	<b>183</b>
Net impairment loss recognized	259	<b>211</b>
Uncollectible amounts written off	(266)	<b>(259)</b>
End of year	183	<b>135</b>

**c. Restricted cash**

As at December 31, 2018, cash balance of HK\$88 million (2017: HK\$51 million) has been received from and restricted for the use of certain customers.

**d. Trade payables**

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

**26 LONG-TERM BORROWINGS**

In HK\$ million	2017	<b>2018</b>
Repayable within a period		
- over one year, but not exceeding two years	9,350	<b>2,022</b>
- over two years, but not exceeding five years	12,164	<b>24,333</b>
- over five years	17,632	<b>13,814</b>
	39,146	<b>40,169</b>
Representing:		
US\$500 million 3.75% guaranteed notes due 2023 (note a)	3,787	<b>3,818</b>
US\$300 million zero coupon guaranteed notes due 2030 (note b)	2,329	<b>2,335</b>
US\$500 million 3.625% guaranteed notes due 2025 (note c)	3,863	<b>3,878</b>
EUR200 million 1.65% guaranteed notes due 2027 (note d)	1,830	<b>1,761</b>
US\$750 million 3.00% guaranteed notes due 2026 (note e)	5,823	<b>5,840</b>
Bank borrowings	21,514	<b>22,537</b>
	39,146	<b>40,169</b>
Secured	-	-
Unsecured	39,146	<b>40,169</b>

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 26 LONG-TERM BORROWINGS (CONTINUED)

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

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

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

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

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

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

##### d. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

##### e. US\$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

f. Please refer to note 38 for details of the Group's bank loan facilities.

#### 27 DERIVATIVE FINANCIAL INSTRUMENTS

In HK\$ million	2017	2018
Non-current assets		
Cross currency swap contracts and foreign exchange forward contract – cash flow hedges for foreign currency risk ( <i>note a</i> )	183	116
Interest rate swap contract – cash flow hedges for interest rate risk ( <i>note b</i> )	40	32
	<b>223</b>	<b>148</b>
Non-current liabilities		
Cross currency swap contracts – cash flow hedges for foreign currency risk ( <i>note a</i> )	(150)	(152)

Derivatives are mainly used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at FVPL.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**27 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

Hedge ineffectiveness for the Group's cross currency swap, foreign exchange forward and interest rate swap contracts may occur due to:

- differences in critical terms between the hedged items and the hedging instruments; and
- changes in credit risk of the derivative counterparty.

**a. Cash flow hedges for foreign currency risk**

For borrowings denominated in foreign currencies, the Group enters into cross currency swap contracts and foreign exchange forward contract to hedge the foreign currency risk. The Group performs qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contract have similar critical terms as the hedged item, such as notional amount, maturity dates and payment dates, the economic relationship exists between the hedged item and the hedged instrument.

The effects of the foreign currency related hedging instruments on the Group's financial position and performance are as follows:

	2017	2018
Carrying amount (assets/(liabilities))	HK\$33 million	<b>(HK\$36 million)</b>
Notional amount	EUR 200 million and US\$2,126 million	<b>EUR 200 million and US\$2,126 million</b>
Maturity date	January 2020 to April 2027	<b>January 2020 to April 2027</b>
Hedge ratio	1:1*	<b>1:1*</b>
Change <sup>#</sup> in fair value of the hedging instrument during the year	(HK\$204 million)	<b>(HK\$107 million)</b>
Change <sup>#</sup> in value of the hedged item during the year	HK\$255 million	<b>HK\$126 million</b>
Weighted average hedged exchange rate for the year	EUR1:HK\$8.32 US\$1:HK\$7.75	<b>EUR1:HK\$8.32 US\$1:HK\$7.75</b>

\* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

**b. Cash flow hedges for interest rate risk**

For certain borrowings subject to cash flow interest rate risk, the Group enters into a floating-to-fixed interest rate swap contract. The Group performs qualitative assessment of hedge effectiveness. As the interest rate swap contract has similar critical terms as the hedged item, such as notional amount, maturity date and payment dates, the economic relationship exists between the hedged item and hedged instrument.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**27 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

**b. Cash flow hedges for interest rate risk (continued)**

The effects of the interest rate related hedging instrument on the Group's financial position and performance are as follows:

	2017	2018
Carrying amount (asset)	HK\$40 million	<b>HK\$32 million</b>
Notional amount	HK\$1,500 million	<b>HK\$1,500 million</b>
Maturity date	March 2021	<b>March 2021</b>
Hedge ratio	1:1*	<b>1:1*</b>
Change# in fair value of the hedging instrument during the year	(HK\$22 million)	<b>(HK\$9 million)</b>
Change# in value of the hedged item during the year	HK\$25 million	<b>HK\$11 million</b>
Receive leg/pay leg interest ratio	0.61	<b>1.47</b>

\* The hedge ratio is 1:1 as the notional amount and timing of the hedging instrument match with that of the hedged item.

# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

**c. Hedging reserve and costs of hedging reserve**

The Group's hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK\$ million	Cash flow hedge for foreign currency risk	Cash flow hedge for interest rate risk	Total
<b>Hedging reserve</b>			
At January 1, 2017	430	61	491
Cash flow hedges:			
- effective portion of changes in fair value	(255)	(25)	(280)
- transfer from equity to consolidated income statement	(332)	-	(332)
At December 31, 2017	(157)	36	(121)
Changes in accounting policies ( <i>note 4(d)</i> )	242	10	252
At January 1, 2018 (restated)	<b>85</b>	<b>46</b>	<b>131</b>
Cash flow hedges:			
- effective portion of changes in fair value	<b>(126)</b>	<b>(11)</b>	<b>(137)</b>
- transfer from equity to consolidated income statement	<b>35</b>	-	<b>35</b>
At December 31, 2018	<b>(6)</b>	<b>35</b>	<b>29</b>
In HK\$ million		Cash flow hedge for foreign currency risk	
<b>Costs of hedging reserve</b>			
At January 1 and December 31, 2017			-
Changes in accounting policies ( <i>note 4(d)</i> )			(208)
At January 1, 2018 (restated)			<b>(208)</b>
Costs of hedging			<b>39</b>
At December 31, 2018			<b>(169)</b>

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 28 EMPLOYEE BENEFITS

##### a. Employee retirement benefits - Defined contribution retirement schemes

The Group participates in defined contribution schemes, including the Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a current cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

Forfeited contributions totaling approximately HK\$14 million (2017: approximately HK\$13 million) were utilized during the year ended December 31, 2018 to reduce future contributions and no forfeited contribution was available at the end of the reporting period.

##### b. Equity compensation benefits

PCCW and the HKT Trust and HKT operate the following share option schemes:

- Share option scheme of PCCW adopted on May 8, 2014 (the “PCCW 2014 Scheme”).
- Share Stapled Units option scheme of HKT Trust and HKT conditionally adopted on November 7, 2011 (the “2011-2021 Option Scheme”).

PCCW and HKT operate the following share award schemes:

- Share award schemes of PCCW namely the PCCW Purchase Scheme and the PCCW Subscription Scheme (collectively the “PCCW Share Award Schemes”).
- Share Stapled Units award schemes of HKT namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the “Share Stapled Units Award Schemes”).

##### i. Share option schemes

No share options/Share Stapled Unit options have been granted under the PCCW 2014 Scheme and the 2011-2021 Option Scheme since their adoption and up to and including December 31, 2018.

##### ii. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the Share Stapled Units Award Schemes, each scheme provides that following the making of an award to a selected participant (including any director or employee of PCCW and its participating companies for the PCCW Share Award Schemes, and any director or employee of HKT or any of its subsidiaries for the Share Stapled Units Award Schemes), the relevant PCCW Shares/Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the respective approving body provided that the selected participant remains at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of PCCW, HKT, the relevant participating company or subsidiary and satisfies any other conditions specified at the time the award is made, notwithstanding that the respective approving body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the relevant schemes.

During the year ended December 31, 2018, share-based compensation expenses in respect of the PCCW Shares Award Schemes of HK\$27 million (2017: HK\$25 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**28 EMPLOYEE BENEFITS (CONTINUED)**

**b. Equity compensation benefits (continued)**

ii. Share award schemes (continued)

During the year ended December 31, 2018, share-based compensation expenses in respect of the HKT Share Stapled Units Purchase Scheme of HK\$28 million (2017: HK\$25 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since its adoption and up to and including December 31, 2018.

- (1) Movements in the number of PCCW Shares held by the Group under the PCCW Share Award Schemes and the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme

	<b>Number of PCCW Shares</b>	
	2017	2018
PCCW Share Award Schemes – PCCW Purchase Scheme:		
Beginning of year	799,890	<b>1,143,300</b>
Purchase from the market by the trustee at weighted average market price of HK\$4.46 (2017: HK\$4.79) per PCCW Share	2,022,000	<b>3,206,000</b>
PCCW Shares vested	(1,678,590)	<b>(4,348,934)</b>
<b>End of year</b>	<b>1,143,300</b>	<b>366</b>
PCCW Share Award Schemes – PCCW Subscription Scheme:		
Beginning of year	9,118,270	<b>6,994,580</b>
PCCW Shares vested	(2,123,690)	<b>(2,517,599)</b>
<b>End of year</b>	<b>6,994,580</b>	<b>4,476,981</b>
	<b>Number of Share Stapled Units</b>	
	2017	2018
HKT Share Stapled Units Purchase Scheme:		
Beginning of year	5,197,383	<b>1,089,787</b>
Purchase from the market by the trustee at weighted average market price of HK\$10.13 (2017: HK\$10.44) per Share Stapled Unit	540,000	<b>2,038,000</b>
Share Stapled Units vested	(4,647,596)	<b>(3,127,542)</b>
<b>End of year</b>	<b>1,089,787</b>	<b>245</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**28 EMPLOYEE BENEFITS (CONTINUED)**

**b. Equity compensation benefits (continued)**

ii. Share award schemes (continued)

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

Date of award	Vesting period	Fair value on the date of award HK\$	2017 Number of PCCW Shares/Share Stapled Units				At December 31, 2017
			At January 1, 2017	Awarded	Forfeited	Vested	
<b>PCCW Share Award Schemes – PCCW Purchase Scheme (PCCW Shares)</b>							
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	535,525	-	-	(535,525)	-
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	-	-	(197,799)	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	-	-	-	197,791
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	-	-	(945,266)	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	-	-	-	945,266
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,203,424	-	-	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,203,415	-	-	1,203,415
Total			2,821,647	2,406,839	-	(1,678,590)	3,549,896
Weighted average fair value on the date of award (HK\$)			5.20	4.60	-	5.23	4.78
<b>PCCW Share Award Schemes – PCCW Subscription Scheme (PCCW Shares)</b>							
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	936,146	-	(14,044)	(922,102)	-
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,222,917	-	(22,851)	(1,200,066)	-
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,221,936	-	(58,500)	-	1,163,436
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	-	-	(1,522)	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	-	-	-	1,522
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	-	1,419,915	(46,052)	-	1,373,863
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	-	1,418,931	(45,993)	-	1,372,938
Total			3,384,043	2,838,846	(187,440)	(2,123,690)	3,911,759
Weighted average fair value on the date of award (HK\$)			5.10	4.60	4.83	5.16	4.72
<b>HKT Share Stapled Units Purchase Scheme (Share Stapled Units)</b>							
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	-	(33,202)	(2,848,169)	-
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	-	(333)	(882)	-
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	749,315	-	(7,148)	(742,167)	-
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	640,488	-	(10,297)	(630,191)	-
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	639,494	-	(26,336)	-	613,158
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	-	-	(426,187)	-
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	-	-	-	426,187
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	-	1,196,587	(20,998)	-	1,175,589
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	-	1,195,573	(20,945)	-	1,174,628
Total			5,764,257	2,392,160	(119,259)	(4,647,596)	3,389,562
Weighted average fair value on the date of award (HK\$)			9.93	10.04	10.01	9.72	10.30

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**28 EMPLOYEE BENEFITS (CONTINUED)**

**b. Equity compensation benefits (continued)**

ii. Share award schemes (continued)

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award (continued)

Date of award	Vesting period	Fair value on the date of award HK\$	2018 Number of PCCW Shares/Share Stapled Units				
			At January 1, 2018	Awarded	Forfeited	At December 31, 2018	
PCCW Share Award Schemes – PCCW Purchase Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	-	-	(197,791)	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	-	-	(945,266)	-
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,203,424	-	-	(1,203,424)	-
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,203,415	-	-	(664,338)*	539,077
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	-	1,207,514	-	(669,058)*	538,456
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	-	1,207,501	-	(669,057)*	538,444
Total			3,549,896	2,415,015	-	(4,348,934)	1,615,977
Weighted average fair value on the date of award (HK\$)			4.78	4.66	-	4.77	4.64
PCCW Share Award Schemes – PCCW Subscription Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,163,436	-	(13,221)	(1,150,215)	-
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	-	-	(1,522)	-
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,373,863	-	(13,186)	(1,360,677)	-
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,372,938	-	(67,507)	(1,683)*	1,303,748
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	-	1,479,900	(70,799)	(1,751)*	1,407,350
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	-	1,478,862	(70,723)	(1,751)*	1,406,388
Total			3,911,759	2,958,762	(235,436)	(2,517,599)	4,117,486
Weighted average fair value on the date of award (HK\$)			4.72	4.66	4.66	4.79	4.64
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	613,158	-	(5,951)	(607,207)	-
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	-	-	(426,187)	-
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	1,175,589	-	(6,013)	(1,169,576)	-
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	1,174,628	-	(31,184)	(303,277)*	840,167
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	-	1,247,635	(32,829)	(310,648)*	904,158
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	-	1,246,543	(32,757)	(310,647)*	903,139
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	-	100,000	-	-	100,000
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	-	100,000	-	-	100,000
October 5, 2018	October 5, 2018 to October 5, 2019	10.34	-	15,000	-	-	15,000
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	-	15,000	-	-	15,000
November 5, 2018	November 5, 2018 to November 5, 2019	10.66	-	15,000	-	-	15,000
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	-	15,000	-	-	15,000
Total			3,389,562	2,754,178	(108,734)	(3,127,542)	2,907,464
Weighted average fair value on the date of award (HK\$)			10.30	9.99	10.2	10.30	10.01

\* The PCCW Shares/Share Stapled Units were vested before the respective vesting date pursuant to the delegated authority of the relevant board committees on compassionate grounds.



**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**28 EMPLOYEE BENEFITS (CONTINUED)**

**b. Equity compensation benefits (continued)**

ii. Share award schemes (continued)

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award (continued)

The fair values of the PCCW Shares and the Share Stapled Units awarded during the year on the dates of award are measured by the respective quoted market prices of the PCCW Shares and the Share Stapled Units at the respective award dates.

The PCCW Shares and the Share Stapled Units unvested had a weighted average remaining vesting period at the end of the year as follows:

	2017	2018
PCCW Share Award Schemes – PCCW Purchase Scheme (PCCW Shares)	0.60 year	<b>0.60 year</b>
PCCW Share Award Schemes – PCCW Subscription Scheme (PCCW Shares)	0.61 year	<b>0.61 year</b>
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.60 year	<b>0.64 year</b>

**29 SHARE CAPITAL**

	2017		2018	
	Number of shares	Nominal value HK\$ million	Number of shares	Nominal Value HK\$ million
Authorized:				
Ordinary shares of US\$1 each				
Beginning and end of year	650,000,000	5,070	650,000,000	5,070
Issued and fully paid:				
Ordinary shares of US\$1 each				
Beginning of year	636,000,008	4,961	636,000,010	4,961
Issued during the year (note (a))	2	-	3	-
End of year	636,000,010	4,961	636,000,013	4,961

(a) During the year ended December 31, 2018, the Company issued three (2017: two) ordinary shares of US\$1 each to the sole shareholder of the Company at a premium of approximately HK\$32 million (2017: HK\$13 million).

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 RESERVES

In HK\$ million	2017 (Restated*)									Total
	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	AFS reserve	Other reserves	Retained profits		
<b>At January 1, 2017 as originally presented</b>	21,959	28	(2)	(695)	491	47	26	5,068	26,922	
Changes in accounting policies <sup>#</sup>	-	-	-	-	-	-	-	(818)	(818)	
<b>At January 1, 2017 (restated*)</b>	<b>21,959</b>	<b>28</b>	<b>(2)</b>	<b>(695)</b>	<b>491</b>	<b>47</b>	<b>26</b>	<b>4,250</b>	<b>26,104</b>	
<b>Comprehensive income/(loss)</b>										
Profit for the year	-	-	-	-	-	-	-	4,670	4,670	
Other comprehensive income/(loss)										
<i>Items that have been reclassified or may be reclassified subsequently to consolidated income statement:</i>										
Exchange differences on translating foreign operations	-	-	176	-	-	-	-	-	176	
Cash flow hedges:										
- effective portion of changes in fair value	-	-	-	-	(280)	-	-	-	(280)	
- transfer to consolidated income statement	-	-	-	-	(332)	-	-	-	(332)	
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>-</b>	<b>176</b>	<b>-</b>	<b>(612)</b>	<b>-</b>	<b>-</b>	<b>4,670</b>	<b>4,234</b>	
<b>Transactions with equity holder</b>										
Contributions by and distributions to equity holder:										
Issue of ordinary shares	13	-	-	-	-	-	-	-	13	
Final dividend paid in respect of the previous year (note 13)	-	-	-	-	-	-	-	(2,632)	(2,632)	
Interim dividend declared and paid in respect of the current year (note 13)	-	-	-	-	-	-	-	(2,129)	(2,129)	
<b>Total transactions with equity holder</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,761)</b>	<b>(4,748)</b>	
<b>At December 31, 2017</b>	<b>21,972</b>	<b>28</b>	<b>174</b>	<b>(695)</b>	<b>(121)</b>	<b>47</b>	<b>26</b>	<b>4,159</b>	<b>25,590</b>	

\* See note 4 for details regarding the restatement as a result of changes in accounting policies.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 RESERVES (CONTINUED)

In HK\$ million	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	2018 Costs of hedging reserve	AFS reserve	Other reserves	Retained profits	Total
<b>At December 31, 2017 as originally presented</b>	21,972	28	173	(695)	(121)	-	47	26	5,329	26,759
Changes in accounting policies <sup>#</sup>	-	-	1	-	-	-	-	-	(1,170)	(1,169)
<b>At December 31, 2017 (restated<sup>#</sup>)</b>	21,972	28	174	(695)	(121)	-	47	26	4,159	25,590
Changes in accounting policies <sup>#</sup>	-	-	-	-	252	(208)	(47)	-	3	-
<b>At January 1, 2018 (restated<sup>#</sup>)</b>	21,972	28	174	(695)	131	(208)	-	26	4,162	25,590
<b>Comprehensive income/(loss)</b>										
Profit for the year	-	-	-	-	-	-	-	-	4,719	4,719
Other comprehensive income/(loss)										
<i>Items that have been reclassified or may be reclassified subsequently to consolidated income statement:</i>										
Exchange differences on translating foreign operations	-	-	(79)	-	-	-	-	-	-	(79)
Cash flow hedges:										
- effective portion of changes in fair value	-	-	-	-	(137)	-	-	-	-	(137)
- transfer to consolidated income statement	-	-	-	-	35	-	-	-	-	35
Costs of hedging	-	-	-	-	-	39	-	-	-	39
<b>Total comprehensive income/(loss) for the year</b>	-	-	(79)	-	(102)	39	-	-	4,719	4,577
<b>Transactions with equity holder</b>										
Contributions by and distributions to equity holder:										
Issue of ordinary shares	32	-	-	-	-	-	-	-	-	32
Final dividend paid in respect of the previous year (note 13)	-	-	-	-	-	-	-	-	(2,783)	(2,783)
Interim dividend declared and paid in respect of the current year (note 13)	-	-	-	-	-	-	-	-	(2,205)	(2,205)
<b>Total transactions with equity holder</b>	32	-	-	-	-	-	-	-	(4,988)	(4,956)
<b>At December 31, 2018</b>	22,004	28	95	(695)	29	(169)	-	26	3,893	25,211

<sup>#</sup> See note 4 for details regarding the restatement as a result of changes in accounting policies.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DEFERRED INCOME TAX**

**a. Movements in deferred income tax liabilities/(assets) during the year are as follows:**

In HK\$ million	2017 (Restated)			Total
	Accelerated tax depreciation and amortization	Tax losses	Others	
Beginning of year	2,717	(316)	(5)	2,396
Charged/(credited) to the consolidated income statement ( <i>note 12(a)</i> )	306	(180)	1	127
Exchange differences	1	(3)	-	(2)
End of year	3,024	(499)	(4)	2,521

In HK\$ million	2018			Total
	Accelerated tax depreciation and amortization	Tax losses	Others	
Beginning of year	3,024	(499)	(4)	2,521
Charged to the consolidated income statement ( <i>note 12(a)</i> )	393	14	-	407
End of year	3,417	(485)	(4)	2,928

**b. As at December 31, 2017 and 2018, deferred income tax liabilities/(assets) represent::**

In HK\$ million	2017 (Restated)	2018
Deferred income tax assets:		
- to be recovered after more than 12 months	(433)	(435)
- to be recovered within 12 months	(35)	(30)
Net deferred income tax assets recognized in the consolidated statement of financial position	(468)	(465)
Deferred income tax liabilities:		
- to be recovered after more than 12 months	2,829	3,233
- to be recovered within 12 months	160	160
Net deferred income tax liabilities recognized in the consolidated statement of financial position	2,989	3,393
	2,521	2,928

- c.** Deferred income tax assets have been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. As at December 31, 2018, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$2,119 million (2017: HK\$2,207 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$37 million (2017: HK\$41 million) and HK\$256 million (2017: HK\$263 million) will expire within 1 to 5 years and after 5 years from December 31, 2018 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**32 CARRIER LICENCE FEE LIABILITIES**

As at December 31, 2018, the Group had carrier licence fee liabilities payable as follows:

In HK\$ million	2017			2018		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Payable within a period						
- not exceeding one year	173	7	180	<b>173</b>	7	<b>180</b>
- over one year, but not exceeding two years	123	19	142	<b>123</b>	<b>19</b>	<b>142</b>
- over two years, but not exceeding five years	257	75	332	<b>196</b>	<b>45</b>	<b>241</b>
- over five years	75	25	100	<b>38</b>	<b>12</b>	<b>50</b>
	628	126	754	<b>530</b>	<b>83</b>	<b>613</b>
Less: Amounts payable within one year included under current liabilities	(173)	(7)	(180)	<b>(173)</b>	<b>(7)</b>	<b>(180)</b>
Non-current portion	455	119	574	<b>357</b>	<b>76</b>	<b>433</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

**a. Reconciliation of profit before income tax to net cash generated from operating activities**

In HK\$ million	2017 (Restated)	2018
Profit before income tax	5,571	<b>5,728</b>
Adjustments for:		
Finance costs, net	1,211	<b>1,468</b>
Gain on disposal of an AFS financial asset	(6)	-
Provision for impairment on interests in associates	154	-
Other gains	(5)	<b>(2)</b>
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(2)	<b>(1)</b>
Provision for inventory obsolescence	12	<b>8</b>
Impairment loss for trade receivables	259	<b>211</b>
Depreciation of property, plant and equipment	1,381	<b>1,324</b>
Depreciation of right-of-use assets	1,582	<b>1,551</b>
Amortization of land lease premium - interests in leasehold land	13	<b>13</b>
Amortization of intangible assets	1,163	<b>1,186</b>
Amortization of fulfillment costs	427	<b>417</b>
Amortization of customer acquisition costs	763	<b>852</b>
Share of results of associates	12	-
Share of results of joint ventures	28	<b>29</b>
Share-based compensation expenses	50	<b>55</b>
Increase in PCCW Shares and Share Stapled Units for share award schemes	(15)	<b>(35)</b>
Decrease/(increase) in operating assets		
- inventories	(54)	<b>(339)</b>
- trade receivables, prepayments, deposits and other current assets	(17)	<b>(416)</b>
- contract assets	33	<b>162</b>
- amounts due from related companies	18	<b>(27)</b>
- restricted cash	(15)	<b>(37)</b>
- fulfillment costs	(427)	<b>(375)</b>
- customer acquisition costs	(727)	<b>(873)</b>
- other non-current assets	(60)	<b>(111)</b>
(Decrease)/increase in operating liabilities		
- trade payables	(600)	<b>(86)</b>
- accruals and other payables	256	<b>(362)</b>
- amounts due to fellow subsidiaries and the immediate holding company	(185)	<b>725</b>
- advances from customers	(24)	<b>25</b>
- contract liabilities	163	<b>185</b>
- other long-term liabilities	(4)	<b>16</b>
<b>Cash generated from operations</b>	<b>10,955</b>	<b>11,291</b>
Interest received	26	<b>39</b>
Income tax paid, net of tax refund		
- Hong Kong profits tax paid	(665)	<b>(672)</b>
- Overseas profits tax paid	(41)	<b>(14)</b>
<b>Net cash generated from operating activities</b>	<b>10,275</b>	<b>10,644</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

**b. Movements of financial (assets)/liabilities arising from financing activities**

Movements of financial (assets)/liabilities arising from financing activities are as follows:

In HK\$ million	2017 (Restated)						Total
	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Long-term borrowings	Derivative financial instruments, net	Lease liabilities		
As at January 1, 2017	-	178	38,193	(263)	2,614	40,722	
Cash flows in financing activities							
New borrowings raised, net	-	-	5,275	-	-	5,275	
Finance costs (paid)/ received	-	(877)	-	21	-	(856)	
Repayments of borrowings	-	-	(4,650)	-	-	(4,650)	
Payment for lease liabilities (including interests)	-	-	-	-	(1,661)	(1,661)	
Classified as cash flows in investing activities ( <i>note 35(b)(i)</i> )	-	-	(130)	-	-	(130)	
Non-cash movements	(14)	886	458	169	1,511	3,010	
As at December 31, 2017	(14)	187	39,146	(73)	2,464	41,710	

In HK\$ million	2018						Total
	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Long-term borrowings	Derivative financial instruments, net	Lease liabilities		
As at January 1, 2018	(14)	187	39,146	(73)	2,464	41,710	
Cash flows in financing activities							
New borrowings raised, net	-	-	13,616	-	-	13,616	
Finance costs (paid)/ received	-	(962)	-	76	-	(886)	
Repayments of borrowings	-	-	(12,543)	-	-	(12,543)	
Payment for lease liabilities (including interests)	-	-	-	-	(1,665)	(1,665)	
Classified as cash flows in investing activities ( <i>note 35(b)(i)</i> )	-	-	(130)	-	-	(130)	
Non-cash movements	4	1,036	80	1	2,394	3,515	
As at December 31, 2018	(10)	261	40,169	4	3,193	43,617	

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

##### c. Acquisition of The Club Travel Services Limited (formerly known as Pioneer Travel Services Limited) (“Club Travel”)

On July 30, 2018, the Group completed the acquisition of the entire issued share capital of Club Travel, a private company incorporated in Hong Kong. Club Travel is a licensed travel agent engages in the provision of travel services. The acquisition helps the Group to handle travel arrangements for customers and some internal users. The aggregate consideration was not material to the Group.

##### d. Analysis of cash and cash equivalents

In HK\$ million	2017	2018
Total cash and bank balances	3,718	<b>3,145</b>
Less: Short-term deposits	(450)	<b>(523)</b>
Restricted cash	(51)	<b>(88)</b>
Cash and cash equivalents as at December 31,	3,217	<b>2,534</b>

#### 34 CAPITAL MANAGEMENT

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

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group (“Adjusted Capital”), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

The Group is not subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.



**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS**

The table below analyze financial instruments by category:

In HK\$ million	2017 (Restated)				Total
	Financial assets at amortized cost	AFS financial assets	Financial assets at FVPL	Derivatives used for hedging	
<b>Non-current assets</b>					
AFS financial assets	-	77	-	-	77
Financial assets at FVPL	-	-	20	-	20
Derivative financial instruments*	-	-	-	223	223
Other non-current assets	275	-	-	-	275
	275	77	20	223	595
<b>Current assets</b>					
Prepayments, deposits and other current assets (excluding prepayments)	2,383	-	-	-	2,383
Trade receivables, net	2,787	-	-	-	2,787
Amounts due from related companies	77	-	-	-	77
Financial assets at FVPL	-	-	28	-	28
Restricted cash	51	-	-	-	51
Short-term deposits	450	-	-	-	450
Cash and cash equivalents	3,217	-	-	-	3,217
	8,965	-	28	-	8,993
<b>Total</b>	<b>9,240</b>	<b>77</b>	<b>48</b>	<b>223</b>	<b>9,588</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

The tables below analyze financial instruments by category: *(continued)*

In HK\$ million	Derivatives used for hedging	2017 (Restated) Other financial liabilities at amortized cost	Total
<b>Current liabilities</b>			
Trade payables	-	(1,874)	(1,874)
Accruals and other payables	-	(5,082)	(5,082)
Carrier licence fee liabilities	-	(173)	(173)
Amounts due to fellow subsidiaries and the immediate holding company	-	(8,275)	(8,275)
Lease liabilities	-	(1,157)	(1,157)
	-	(16,561)	(16,561)
<b>Non-current liabilities</b>			
Long-term borrowings	-	(39,146)	(39,146)
Derivative financial instruments	(150)	-	(150)
Carrier licence fee liabilities	-	(455)	(455)
Lease liabilities	-	(1,307)	(1,307)
Other long-term liabilities	-	(591)	(591)
	(150)	(41,499)	(41,649)
<b>Total</b>	<b>(150)</b>	<b>(58,060)</b>	<b>(58,210)</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

The tables below analyze financial instruments by category: *(continued)*

In HK\$ million	2018				Total
	Financial assets at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Derivatives used for hedging	
Non-current assets					
Financial assets at FVOCI	-	77	-	-	77
Financial assets at FVPL	-	-	8	-	8
Derivative financial instruments*	-	-	-	148	148
Other non-current assets	373	-	-	-	373
	<b>373</b>	<b>77</b>	<b>8</b>	<b>148</b>	<b>606</b>
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	1,592	-	-	-	1,592
Trade receivables, net	3,727	-	-	-	3,727
Amounts due from related companies	102	-	-	-	102
Financial assets at FVPL	-	-	12	-	12
Restricted cash	88	-	-	-	88
Short-term deposits	523	-	-	-	523
Cash and cash equivalents	2,534	-	-	-	2,534
	<b>8,566</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>8,578</b>
<b>Total</b>	<b>8,939</b>	<b>77</b>	<b>20</b>	<b>148</b>	<b>9,184</b>

\*As at December 31, 2018, derivative financial instruments of HK\$15 million (2017: HK\$8 million) related to the foreign exchange forward contract with an aggregate notional contract amount of US\$376 million (approximately HK\$2,905 million) were designated as cash flow hedge of US\$300 million zero coupon guaranteed notes due 2030. These guaranteed notes may be redeemed at the option of the Group on January 15, 2020 at an early redemption amount of US\$376 million. Refer to notes 26(b) and 27(a) for details of the guaranteed notes and the foreign exchange forward contract respectively.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

The tables below analyze financial instruments by category: *(continued)*

In HK\$ million	Derivatives used for hedging	2018 Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	-	(1,787)	(1,787)
Accruals and other payables	-	(4,727)	(4,727)
Carrier licence fee liabilities	-	(173)	(173)
Amounts due to fellow subsidiaries and the immediate holding company	-	(9,061)	(9,061)
Lease liabilities	-	(1,293)	(1,293)
	-	(17,041)	(17,041)
Non-current liabilities			
Long-term borrowings	-	(40,169)	(40,169)
Derivative financial instruments	(152)	-	(152)
Carrier licence fee liabilities	-	(357)	(357)
Lease liabilities	-	(1,900)	(1,900)
Other long-term liabilities	-	(829)	(829)
	(152)	(43,255)	(43,407)
<b>Total</b>	<b>(152)</b>	<b>(60,296)</b>	<b>(60,448)</b>

Exposure to credit, liquidity, and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

**a. Credit risk**

The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables, contract assets, amounts due from related companies, interest receivable, lease receivables, derivative financial instruments, and other receivables. Management has policies in place and exposure to these credit risks is monitored on an ongoing basis.

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. Normally, the Group does not obtain collateral from customers. As at December 31, 2017 and 2018, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25(b).

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35 FINANCIAL INSTRUMENTS (CONTINUED)

##### a. Credit risk (continued)

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at December 31, 2018 and the Group made no write-offs or provision for these contract assets during the year.

Amounts due from related companies and other receivables are considered to have low credit risk. These assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2017 and 2018, the amounts due from related companies and other receivables were fully performing.

Derivative financial instruments, interest receivable and cash and cash equivalents are considered to have low credit risk. These assets are executed with creditworthy financial institutions or investment counterparties and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 37, the Group does not provide any other guarantees which would expose the Group to credit risk.

##### b. Liquidity risk

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

The Group is subject to certain corporate guarantee obligations to guarantee performance of the subsidiaries in the normal course of their businesses. Refer to note 37 for details.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

**b. Liquidity risk (continued)**

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

In HK\$ million	2017 (Restated)				Total contractual undiscounted cash outflow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
<b>Current liabilities</b>						
Trade payables	(1,874)	-	-	-	(1,874)	(1,874)
Accruals and other payables	(5,082)	-	-	-	(5,082)	(5,082)
Carrier licence fee liabilities	(180)	-	-	-	(180)	(173)
Amounts due to fellow subsidiaries and the immediate holding company						
	(8,275)	-	-	-	(8,275)	(8,275)
Lease liabilities	(1,166)	-	-	-	(1,166)	(1,157)
	(16,577)	-	-	-	(16,577)	(16,561)
<b>Non-current liabilities</b>						
Long-term borrowings (note (i))	(937)	(10,198)	(14,064)	(21,134)	(46,333)	(39,146)
Derivative financial instruments	1	(1)	(5)	(172)	(177)	(150)
Carrier licence fee liabilities	-	(142)	(332)	(100)	(574)	(455)
Lease liabilities	-	(736)	(476)	(206)	(1,418)	(1,307)
Other long-term liabilities (note (ii))	(6)	(1)	(25)	(1,046)	(1,078)	(591)
	(942)	(11,078)	(14,902)	(22,658)	(49,580)	(41,649)
<b>Total</b>	<b>(17,519)</b>	<b>(11,078)</b>	<b>(14,902)</b>	<b>(22,658)</b>	<b>(66,157)</b>	<b>(58,210)</b>

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

**b. Liquidity risk (continued)**

In HK\$ million	2018				Total contractual undiscounted cash outflow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
Current liabilities						
Trade payables	(1,787)	-	-	-	(1,787)	(1,787)
Accruals and other payables	(4,727)	-	-	-	(4,727)	(4,727)
Carrier licence fee liabilities	(180)	-	-	-	(180)	(173)
Amounts due to fellow subsidiaries and the immediate holding company	(9,061)	-	-	-	(9,061)	(9,061)
Lease liabilities	(1,309)	-	-	-	(1,309)	(1,293)
	(17,064)	-	-	-	(17,064)	(17,041)
Non-current liabilities						
Long-term borrowings (note (i))	(954)	(2,985)	(26,607)	(16,835)	(47,381)	(40,169)
Derivative financial instruments	1	(1)	(6)	(173)	(179)	(152)
Carrier licence fee liabilities	-	(142)	(241)	(50)	(433)	(357)
Lease liabilities	-	(723)	(940)	(427)	(2,090)	(1,900)
Other long-term liabilities (note (ii))	(1)	(14)	(768)	(1,039)	(1,822)	(829)
	(954)	(3,865)	(28,562)	(18,524)	(51,905)	(43,407)
<b>Total</b>	<b>(18,018)</b>	<b>(3,865)</b>	<b>(28,562)</b>	<b>(18,524)</b>	<b>(68,969)</b>	<b>(60,448)</b>

(i) As at December 31, 2018, bank borrowings of HK\$1,690 million (2017: HK\$1,820 million) included in long-term borrowings were drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Group.

(ii) As at December 31, 2018, other long-term liabilities included HK\$232 million (2017: HK\$164 million) of long-term interest payables, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK\$1,665 million) (2017: EUR200 million (approximately HK\$1,665 million)) and included HK\$43 million (2017: nil) of long-term interest payable, which related to interest drawn under the arrangements with banks to receive agreed amounts by installments to settle interest payments of fixed-to-fixed cross currency swap contracts with an aggregate notional contract amount of US\$500 million (approximately HK\$3,879 million) (2017: nil). Refer to notes 26(d), 26(a) and 27(a) for details of the guaranteed notes and the derivative financial instruments respectively.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35 FINANCIAL INSTRUMENTS (CONTINUED)

##### c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of HKT, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business.

All treasury risk management activities are carried out in accordance with the policies and guidelines approved by the Finance and Management Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit the exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

##### i. Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposure. Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

The Group's borrowings are denominated in the Hong Kong dollars, United States dollars or Euro. As at December 31, 2017 and 2018, all of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by the cross currency swap contracts and foreign exchange forward contract. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. Cross currency swap contracts and foreign exchange forward contract outstanding as at December 31, 2018 with an aggregate notional contract amount of US\$2,126 million (approximately HK\$16,478 million) (2017: US\$2,126 million (approximately HK\$16,478 million)) and EUR200 million (approximately HK\$1,665 million) (2017: EUR200 million (approximately HK\$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.



**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

**c. Market risk (continued)**

**i. Foreign currency risk (continued)**

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

In HK\$ million	2017 (Restated)			2018		
	United States Dollars	Euro	Renminbi	United States Dollars	Euro	Renminbi
Trade receivables	1,501	227	105	<b>1,359</b>	<b>194</b>	<b>142</b>
Amounts due from related companies	-	-	10	-	-	<b>18</b>
Restricted cash	-	-	-	-	-	<b>1</b>
Cash and cash equivalents	616	130	101	<b>722</b>	<b>191</b>	<b>134</b>
Trade payables	(1,288)	(115)	(55)	<b>(1,140)</b>	<b>(65)</b>	<b>(71)</b>
Lease liabilities	(129)	(13)	(109)	<b>(142)</b>	<b>(8)</b>	<b>(67)</b>
Long-term borrowings	(15,802)	(1,830)	-	<b>(15,871)</b>	<b>(1,761)</b>	-
Gross exposure arising from monetary (liabilities)/assets	(15,102)	(1,601)	52	<b>(15,072)</b>	<b>(1,449)</b>	<b>157</b>
Net monetary assets denominated in respective entities' functional currencies	(80)	(66)	(61)	<b>(128)</b>	<b>(108)</b>	<b>(158)</b>
Borrowings with hedging instruments	15,802	1,830	-	<b>15,871</b>	<b>1,761</b>	-
Overall net exposure	620	163	(9)	<b>671</b>	<b>204</b>	<b>(1)</b>

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by approximately HK\$6 million (2017 (restated): HK\$5 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2018 would have collectively debited/credited by approximately HK\$159 million (2017: HK\$158 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and a foreign exchange forward contract.

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by approximately HK\$9 million (2017: HK\$7 million), mainly as a result of foreign exchange gains/losses on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2018 would have collectively debited/credited by approximately HK\$88 million (2017: HK\$92 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the profit after tax for the year of the Group (2017: no material impact).

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

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35 FINANCIAL INSTRUMENTS (CONTINUED)

##### c. Market risk (continued)

##### i. Foreign currency risk (continued)

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2017 and 2018.

##### ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings and amount due to immediate holding company. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit facilities which are denominated in Hong Kong dollars and pays interest at floating rates.

The Group has entered into a floating-to-fixed interest rate swap contract to hedge the cash flow interest rate risk arising from the Group's certain floating rate long-term borrowings.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of the cash flow hedging instruments.

	2017		2018	
	Effective interest rate %	HK\$ million	Effective interest rate %	HK\$ million
Net fixed rate borrowings:				
Long-term bank borrowings with hedging instruments	1.84	1,488	<b>1.84</b>	<b>1,492</b>
Long-term borrowings with hedging instruments	3.72	17,632	<b>3.84</b>	<b>17,632</b>
Variable rate borrowings:				
Long-term bank borrowings	1.63	20,026	<b>2.49</b>	<b>21,045</b>
Intercompany loan	0.87	7,236	<b>1.65</b>	<b>7,204</b>
<b>Total</b>		<b>46,382</b>		<b>47,373</b>

As at December 31, 2018, if the interest rate on variable rate borrowings had increased/decreased by 50 basis points (2017: 50 basis points), with all other variables held constant, the Group's profit after tax for the year would have decreased/increased by approximately HK\$119 million (2017: HK\$114 million) mainly as a result of higher/lower interest expense on floating rate borrowings and balances with group companies in existence at the end of the reporting period.

The sensitivity analysis above has been determined assuming that the change in interest rate occurred at the end of the reporting period and applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at those dates. The 50 basis points (2017: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2017 and 2018.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35 FINANCIAL INSTRUMENTS (CONTINUED)

##### c. Market risk (continued)

###### iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments. Other than unquoted equity securities held for strategic purposes, financial assets at FVPL are listed on recognized stock exchange markets.

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

Performance of the Group's unquoted investments held for long-term strategic purposes is assessed at least semi-annually against the performance of the associated business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

##### d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2017 and 2018 except as follows:

In HK\$ million	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	39,146	39,271	40,169	39,736

The fair values of long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy (see note 35(e)).

##### e. Estimation of fair values

Financial instruments carried at fair value are analyzed by valuation method and the different levels have been defined as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

**HKT GROUP HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**35 FINANCIAL INSTRUMENTS (CONTINUED)**

**e. Estimation of fair values (continued)**

The following tables present the Group's financial assets and liability that are measured at fair value as at December 31, 2017 and 2018:

In HK\$ million	2017			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
AFS financial assets				
- Unlisted securities	-	-	77	77
Derivative financial instruments	-	223	-	223
Financial assets at FVPL				
- Listed securities (non-current)	20	-	-	20
- Listed securities (current)	28	-	-	28
<b>Total assets</b>	<b>48</b>	<b>223</b>	<b>77</b>	<b>348</b>
<b>Liabilities</b>				
Derivative financial instruments	-	(150)	-	(150)
<b>2018</b>				
In HK\$ million	2018			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Financial assets at FVOCI				
- Unlisted securities	-	-	77	77
Derivative financial instruments	-	148	-	148
Financial assets at FVPL				
- Listed securities (non-current)	8	-	-	8
- Listed securities (current)	12	-	-	12
<b>Total assets</b>	<b>20</b>	<b>148</b>	<b>77</b>	<b>245</b>
<b>Liabilities</b>				
Derivative financial instruments	-	(152)	-	(152)

Instruments included in level 1 comprise PCCW Shares and Share Stapled Units acquired or subscribed under PCCW Share Award Schemes and HKT Share Stapled Units Purchase Scheme and classified as financial assets at fair value through profit or loss.

Instruments included in level 2 comprise cross currency swap contracts, an interest rate swap contract and a foreign exchange forward contract classified as derivative financial instruments. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates. The fair value of the foreign exchange forward contract is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with same notional amounts adjusted for maturity differences.

Instruments included in level 3 comprise an unlisted equity investment which is classified as financial assets at FVOCI. During the year ended December 31, 2018, there was no movement in the financial assets at FVOCI.

For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35 FINANCIAL INSTRUMENTS (CONTINUED)

##### e. Estimation of fair values (continued)

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2017 and 2018.

There were no material changes in valuation techniques during the years ended December 31, 2017 and 2018.

##### f. The Group's valuation process

The Group performs and monitors valuations of financial assets required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

#### 36 COMMITMENTS

##### a. Capital

In HK\$ million	2017	2018
Authorized and contracted for acquisition of property, plant and equipment	823	783

##### b. Committed leases not yet commenced

As at December 31, 2018, the total future lease payments for leases committed but not yet commenced are payable as follows:

Land and buildings

In HK\$ million	2017	2018
Within 1 year	128	18
After 1 year but within 5 years	572	33
After 5 years	413	-
	1,113	51

Network capacity and equipment

In HK\$ million	2017	2018
Within 1 year	20	110
After 1 year but within 5 years	66	2
After 5 years	19	-
	105	112

##### c. Others

As at December 31, 2018, the Group has other outstanding commitments as follows:

In HK\$ million	2017	2018
Operating expenditure commitments	214	3,514

**HKT GROUP HOLDINGS LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****36 COMMITMENTS (CONTINUED)****d. The maturity analysis of the lease receivables is as follows:**

In HK\$ million	2017 (Restated)	<b>2018</b>
Within 1 year	47	<b>71</b>
More than 1 year but within 2 years	36	<b>56</b>
More than 2 years but within 3 years	23	<b>42</b>
More than 3 years but within 4 years	7	<b>40</b>
More than 4 years but within 5 years	8	<b>33</b>
More than 5 years	112	<b>106</b>
<b>Total contractual undiscounted lease receivables*</b>	<b>233</b>	<b>348</b>
Less: interest income relating to future periods	(34)	<b>(37)</b>
<b>Carrying amount</b>	<b>199</b>	<b>311</b>
Less: amounts receivable within one year included under current assets	(43)	<b>(67)</b>
<b>Non-current portion</b>	<b>156</b>	<b>244</b>

\* The majority of the leases typically run for periods of 3 to 15 years.

As at December 31, 2018, the Group also leases out assets under operating leases and the total future minimum lease receipts under non-cancellable operating leases are HK\$99 million (2017: HK\$98 million), of which HK\$49 million (2017: HK\$41 million) is receivable within 1 year, HK\$30 million (2017: HK\$30 million) is receivable after 1 year but within 2 years, HK\$15 million (2017: HK\$14 million) is receivable after 2 years but within 3 years and HK\$5 million (2017: HK\$13 million) is receivable after 3 years but within 4 years. The majority of the leases typically run for periods of 1 to 15 years. None of the leases include material contingent rent.

**37 CONTINGENT LIABILITIES**

In HK\$ million	2017	<b>2018</b>
Performance guarantees	237	<b>249</b>
Guarantees given to banks in respect of credit facilities granted to an associate	60	<b>56</b>
Others	4	<b>8</b>
	<b>301</b>	<b>313</b>

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 would not materially affect the financial position of the Group.

## HKT GROUP HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 38 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2018 were HK\$27,442 million (2017: HK\$27,381 million) of which the unused facilities amounted to HK\$4,710 million (2017: HK\$5,698 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2018, the Group was in compliance with the covenants relating to the drawn down facilities. Further details of the Group's management of liquidity risk are set out in note 35(b).

Summaries of long-term borrowings are set out in note 26.

#### 39 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2018

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2018 and which have not been early adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	January 1, 2020
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
HKAS 19 (2011) (Amendments)	Employee Benefits	January 1, 2019
HKAS 28 (2011) (Amendments)	Investments in Associates and Joint Ventures	January 1, 2019
HKFRS 3 (Revised) (Amendments)	Business Combinations	January 1, 2020
HKFRS 9 (2014) (Amendments)	Financial Instruments	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2015-2017 Cycle		January 1, 2019

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2018 and have not been early adopted in these consolidated financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Group.

#### 40 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, an indirect wholly-owned subsidiary of the Company invested in SC Digital Solutions Limited with an aggregate amount of approximately HK\$241.6 million, which represented 15% of its total issued share capital. SC Digital Solutions Limited undertakes the business of operating a virtual bank in Hong Kong focusing on retail banking and delivering its products and services through a mobile application.

On March 27, 2019, the Hong Kong Monetary Authority granted SC Digital Solutions Limited a license to operate a virtual bank in Hong Kong.

There is no financial impact to the consolidated financial statements for the year ended December 31, 2018, while the financial impact for the year ending December 31, 2019 will be disclosed in the consolidated financial statements for the corresponding year.