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## CORPORATE PROFILE

PCCW Limited is a global company headquartered in Hong Kong which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

The Company holds a majority interest in the HKT Trust and HKT Limited, Hong Kong's premier telecommunications service provider and leading operator in fixed-line, broadband and mobile communication services. HKT meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centers.

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, PCCW Media. PCCW Media operates the largest local pay-TV operation, NOW TV, and is engaged in the provision of over-the-top (OTT) video service under the Viu brand in Hong Kong and other places in the region.

Also wholly-owned by the Group, PCCW Solutions is a leading information technology outsourcing and business process outsourcing provider in Hong Kong and mainland China.

In addition, PCCW holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

Employing over 25,400 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008) and traded in the form of American Depositary Receipts (ADRs) on the OTC Markets Group Inc. in the U.S. (Ticker: PCCWY).

# SIGNIFICANT EVENTS IN 2015

## JANUARY

PCCW Solutions joins a partner program of BMC Software to deliver its products in Hong Kong, Macau and mainland China.

## FEBRUARY

PCCW announces solid financial results for the year ended December 31, 2014.

## MARCH

PCCW Media acquires a controlling majority interest of Silicon Valley-based mobile video platform Vuclip.

## APRIL

HK Television Entertainment Company Limited (HKTVE) is formally granted a free TV license.

HKT demonstrates the world's first LTE-A 450Mbps solution.

## MAY

Music service MOOV offers CD quality lossless music streaming.

## JUNE

PCCW Solutions and SAP's hybris software cooperate to enhance commerce solutions for enterprises in Hong Kong and mainland China.

## JULY

HKT introduces mobile payment service Tap & Go via an all-in-one SIM card for NFC (Near Field Communication) Android phone users.

The Government announces to allocate broadcast frequency spectrum to HKTVE for providing its free TV service.

## AUGUST

PCCW announces satisfactory results for the six months ended June 30, 2015.

HKT's NETVIGATOR launches Hong Kong's first 10Gbps fiber service.

## SEPTEMBER

PCCW Media and HKT jointly unveil the development of a true 4K ultra high definition all-in-one appliance.

Pacific Century Premium Developments (PCPD) has signed an agreement with Citibank for leasing over five floors of PCPD's Premium Grade A office building in Jakarta, Indonesia.

## OCTOBER

Global Internet video platform Viu OTT debuts in Hong Kong.

HKTVE unveils the new ViuTV brand for its free TV service.

## NOVEMBER

PCCW Solutions announces acquisition of Internet Data Center (IDC) and Internet Service Provider (ISP) licenses in Guangdong, China.

HKT demonstrates the world's first 4.5G 1Gbps mobile network at the Global Mobile Broadband Forum 2015 in Hong Kong.

PCCW Solutions and LTF Asia jointly introduce digital logistics platform HOP! (House of Parcels).

PCPD has entered into an agreement with Hyatt Hotels Corporation for the latter to manage PCPD's first resort hotel in Niseko, Japan.

## DECEMBER

PCCW Solutions launches Infinitum, a cloud solutions suite of enterprise business applications and digital and analytics solutions, to facilitate enterprises' digital transformation.

Now TV unveils two new exclusive channels, Oh!K and FOX Action Movie, and other strong content lineup for the first quarter of 2016.

Completion of the consolidation of HKT and CSL radio cell sites for better customer experience and operational efficiency.

A physical card for HKT's Tap & Go is made available so more Hong Kong mobile users can enjoy the service.

PCCW receives an award for the highest service hours of volunteer services from the Social Welfare Department.

## AWARDS

| Award                                                        | Awardees       | Scheme Organizer                                                                                               |
|--------------------------------------------------------------|----------------|----------------------------------------------------------------------------------------------------------------|
| Award of 10,000 Hours for Volunteer Service                  | PCCW           | Steering Committee on Promotion of Volunteer Service, Social Welfare Department                                |
| AV Awards 2014                                               |                | AV Magazine                                                                                                    |
| • Online Music Portal of the Year                            | MOOV           |                                                                                                                |
| 2015 Best IT Service Provider Award                          | PCCW Solutions | CCID Consulting and China Federation of IT Promotion                                                           |
| Best of IT Award 2014                                        |                | PC Market                                                                                                      |
| • Best IaaS Provider                                         | PCCW Solutions |                                                                                                                |
| • My Favorite IPTV Service Award                             | nOW TV         |                                                                                                                |
| CarbonCare® Action Label 2015                                | PCCW           | Carbon Care Asia                                                                                               |
| Certificate of Recognition for Outstanding Volunteer Group   | PCCW           | Eastern/Wan Chai District Co-ordinating Committee on Promotion of Volunteer Service, Social Welfare Department |
| 2015 China Software Industry Best Banking Solutions Award    | PCCW Solutions | China Software Industry Association                                                                            |
| 2015 China Software Industry Best HR Solutions Award         | PCCW Solutions | China Software Industry Association                                                                            |
| 2015 China Software Industry Best IT Services Provider Award | PCCW Solutions | China Software Industry Association                                                                            |
| 2015 China Top 500 Solutions Provider                        |                | Business Partner Advisory Organization                                                                         |
| • 2015 China Top 10 Financial Solutions Provider             | PCCW Solutions |                                                                                                                |
| • 2015 China Top 10 IT Service Provider                      |                |                                                                                                                |
| • 2015 China Top 100 Solutions Provider                      |                |                                                                                                                |
| Cloud500                                                     |                | Business Partner Advisory Organization                                                                         |
| • 2015 Cloud Service Provider                                | PCCW Solutions |                                                                                                                |
| Computerworld Hong Kong Awards 2015                          |                | Computerworld Hong Kong                                                                                        |
| • Data Center Service Provider                               | PCCW Solutions |                                                                                                                |
| • IT Outsourcing & Managed Services Provider                 |                |                                                                                                                |



PCCW Solutions wins the Data Center Service Provider and the IT Outsourcing & Managed Services Provider at the Computerworld Hong Kong Awards 2015.

## AWARDS (CONTINUED)

| Award                                                                                                                                                                                                                                                                                                                                                                                                                                          | Awardees                                                 | Scheme Organizer                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <b>Customer Relationship Excellence Awards 2014</b> <ul style="list-style-type: none"> <li>Customer Service Professional of the Year 2014 (Contact Center) – Merit</li> <li>Customer Service Professional of the Year 2014 (Entertainment – Contact Center)</li> <li>Customer Service Team Leader of the Year 2014 (Contact Center) – Merit</li> <li>Customer Service Team Leader of the Year 2014 (Entertainment – Contact Center)</li> </ul> | PCCW Media Call Center staff members                     | Asia Pacific Customer Service Consortium                                                |
| <b>e-brand awards 2015</b> <ul style="list-style-type: none"> <li>The Best of Data Center</li> <li>The Best of Managed Security Service Provider</li> <li>The Best of Network TV</li> <li>The Best of Online Music Service</li> </ul>                                                                                                                                                                                                          | PCCW Solutions<br>now TV<br>MOOV                         | e-zone                                                                                  |
| 2014 Gold Award for Volunteer Service (Organization)                                                                                                                                                                                                                                                                                                                                                                                           | PCCW                                                     | Steering Committee on Promotion of Volunteer Service, Social Welfare Department         |
| <b>Hong Kong ICT Awards 2015</b> <ul style="list-style-type: none"> <li>Best Mobile Apps (Consumer &amp; Lifestyle Solutions) Award – Silver Award</li> <li>Best Mobile Apps (Consumer &amp; Lifestyle Solutions) Award – Certificate of Merit</li> </ul>                                                                                                                                                                                      | PCCW Media – now News App<br>PCCW Media – MOOV Music App | Office of the Government Chief Information Officer                                      |
| <b>Hong Kong Specialized Partner of the Year</b> <ul style="list-style-type: none"> <li>Engineered Systems (Exadata)</li> </ul>                                                                                                                                                                                                                                                                                                                | PCCW Solutions                                           | Oracle                                                                                  |
| <b>IEBE Award</b> <ul style="list-style-type: none"> <li>2014 Valuable e-Business Organization</li> </ul>                                                                                                                                                                                                                                                                                                                                      | PCCW Solutions                                           | Guangdong e-Business Association and International e-business Expo Organizing Committee |
| <b>IT Square Editors' Choices 2014</b> <ul style="list-style-type: none"> <li>Best Data Center Design and Build Award</li> </ul>                                                                                                                                                                                                                                                                                                               | PCCW Solutions                                           | Sing Tao Daily                                                                          |
| <b>2015 Kam Fan Awards</b> <ul style="list-style-type: none"> <li>TVC Film Single – others (Bronze)</li> <li>Film/Radio &amp; Audio Crafts – Art Direction (Merit)</li> </ul>                                                                                                                                                                                                                                                                  | PCCW Media                                               | The Association of Accredited Advertising Agencies of Hong Kong                         |
| <b>Merit of Highest Service Hour Award 2014 (Private Organizations – Category 1)</b>                                                                                                                                                                                                                                                                                                                                                           | PCCW                                                     | Steering Committee on Promotion of Volunteer Service, Social Welfare Department         |



At the Hong Kong ICT Awards 2015, PCCW Media receives the Best Mobile Apps (Consumer & Lifestyle Solutions) Award – Silver Award for the now News App.



PCCW has received an award for the highest service hours of volunteer services from the Social Welfare Department for the 14th straight year.

| Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Awardees                                                                                                                                                        | Scheme Organizer                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| <b>Mob-Ex Awards 2015</b> <ul style="list-style-type: none"> <li>The Mob-Ex Best of Show 2015 – Brand – Overall</li> <li>Best App – Branded Content – Bronze</li> <li>Best App – Creative Design – Gold</li> <li>Best App – Lifestyle &amp; Entertainment – Silver</li> <li>Best App – Social – Gold</li> <li>Best User Experience – Silver</li> <li>Best App – Media Owner – Gold</li> <li>Best App – Social – Bronze</li> <li>Mobile Team – In-house – Silver</li> <li>Mobile Team – In-house – Bronze</li> </ul> | PCCW Media<br>PCCW Media – now<br>Soccer App<br>PCCW Media – MOOV<br>Music App<br><br>PCCW Media – now<br>News App<br>PCCW Media – now.com<br>PCCW Media – MOOV | <i>Marketing</i>                                                 |
| Outstanding Corporate Strategy Awards 2015                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | now TV                                                                                                                                                          | <i>East Week</i>                                                 |
| Outstanding IT Solutions Provider Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | PCCW Solutions                                                                                                                                                  | Dot Connector Business Consulting Service                        |
| Outstanding Service Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | PCCW Solutions                                                                                                                                                  | China (Shenzhen) International Logistics and Transportation Fair |
| <b>PCM Biz IT Excellence Awards 2015</b> <ul style="list-style-type: none"> <li>IT Solution Excellence</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                   | PCCW Solutions (One-stop Security Assessment Services, End-to-end RFID Retail Solutions and IoT EAS Gateway)                                                    | <i>PC Market</i>                                                 |
| 2014 Silver Partner of the Year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | PCCW Solutions                                                                                                                                                  | Fortinet                                                         |
| <b>SMBWorld Awards 2015</b> <ul style="list-style-type: none"> <li>Best SMB Technology Product (Services) – IT Outsourcing</li> </ul>                                                                                                                                                                                                                                                                                                                                                                               | PCCW Solutions                                                                                                                                                  | <i>SMBWorld</i>                                                  |
| 2014 Top 10 China IT Outsourcing Service Enterprises <ul style="list-style-type: none"> <li>No.1</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                         | PCCW Solutions                                                                                                                                                  | China Software and Services Outsourcing Network                  |
| TOUCH Brands 2015                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | now TV                                                                                                                                                          | <i>East TOUCH</i>                                                |
| <b>Yahoo emotive brand awards 2014-2015</b> <ul style="list-style-type: none"> <li>Entertainment Category</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                | now TV                                                                                                                                                          | Yahoo Hong Kong                                                  |
| 10 Years Plus Caring Company Logo                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | PCCW                                                                                                                                                            | The Hong Kong Council of Social Service                          |



NOW TV wins the Outstanding Corporate Strategy Awards 2015 by *East Week*.

This award list does not include awards to HKT Limited and Pacific Century Premium Developments Limited. Please refer to the annual reports of the two companies for related information.

# KEY FIGURES

## FINANCIAL HIGHLIGHTS

For the year ended December 31, 2015

In HK\$ million (except for per share data)

|                                                               | 2014     | 2015            |
|---------------------------------------------------------------|----------|-----------------|
| Revenue                                                       |          |                 |
| Core revenue*                                                 | 32,962   | <b>39,149</b>   |
| PCPD                                                          | 315      | <b>165</b>      |
|                                                               | 33,277   | <b>39,314</b>   |
| Cost of sales                                                 | (15,151) | <b>(18,965)</b> |
| General and administrative expenses                           | (14,091) | <b>(14,534)</b> |
| Other gains, net                                              | 2,717    | <b>135</b>      |
| Interest income                                               | 90       | <b>87</b>       |
| Finance costs                                                 | (1,418)  | <b>(1,634)</b>  |
| Share of results of associates                                | 45       | <b>52</b>       |
| Share of results of joint ventures                            | 5        | <b>(15)</b>     |
| Profit before income tax                                      | 5,474    | <b>4,440</b>    |
| Income tax                                                    | (803)    | <b>(447)</b>    |
| Profit for the year                                           | 4,671    | <b>3,993</b>    |
| Attributable to:                                              |          |                 |
| Equity holders of the Company                                 | 3,310    | <b>2,295</b>    |
| Non-controlling interests                                     | 1,361    | <b>1,698</b>    |
| Earnings per share (in HK cents)                              |          |                 |
| Basic                                                         | 45.14    | <b>30.58</b>    |
| Diluted                                                       | 45.05    | <b>30.54</b>    |
| Dividends per share (in HK cents)                             |          |                 |
| Interim dividend                                              | 6.99     | <b>7.96</b>     |
| Final dividend proposed after the end of the reporting period | 13.21    | <b>17.04</b>    |
| EBITDA <sup>1</sup>                                           |          |                 |
| Core EBITDA*                                                  | 10,506   | <b>12,139</b>   |
| PCPD                                                          | (166)    | <b>(261)</b>    |
|                                                               | 10,340   | <b>11,878</b>   |

\*Note: Please refer to page 28. Note 1: Please refer to page 31.

## STATEMENT FROM THE CHAIRMAN

I am pleased to report a set of solid financial results for PCCW Limited for the year ended December 31, 2015. All of our core operations made significant progress in business development in the Group's evolution to become a global digital service provider.

Our pay-TV service NOW TV continues to maintain its market leadership and is strengthening its Asian and international programming, delivering more exclusive and express content to address the needs of every member of the family. For better viewing experience, a new 4K ultra high definition integrated box with NOW TV, OTT (over-the-top), DTT (digital terrestrial TV) and other features will be launched shortly.

The media business has also taken efficacious steps to execute its digital entertainment strategy, including the launch of the Viu OTT video service brand in the last quarter. Our OTT service is available in more than 30 languages across 12 countries.

On domestic free TV, HK Television Entertainment Company Limited (HKTVE) has unveiled the ViuTV brand and its refreshing programming. ViuTV targets to begin broadcasting its Cantonese channel via DTT frequency spectrum in April.

PCCW Solutions continued to maintain a leadership position securing major IT contracts in both the public and commercial sectors, driving growth by providing seamless support and exceptional value to customers in targeted industries through its offerings of digital and cloud services in an expanding footprint in Greater China and the Asia Pacific region. In particular, it launched a comprehensive cloud solutions suite, "Infinitum", in Hong Kong and the Mainland during the last quarter.

HKT reported good results on the back of its robust broadband business despite intense competition, as well as the operational synergies released from the mobile business. Service innovations during the year included NETVIGATOR's 10Gbps broadband service and secure mobile payment service Tap & Go.

The property business of the Group saw substantial progress in 2015. Construction of Pacific Century Premium Developments' (PCPD) Premium Grade A office building in Jakarta, Indonesia has proceeded as planned and Citibank has committed to leasing over five floors of the 40-storey building as its headquarters in this important emerging economy.

In 2016, we will stay focused on continuing to provide excellent services and products to our customers and prudently growing our businesses in Hong Kong and other parts of the world, in the Group's pursuit of becoming a key global player in this increasingly digital era.



**Richard Li**  
Chairman  
February 26, 2016

# STATEMENT FROM THE GROUP MANAGING DIRECTOR

PCCW plays a central role in making the transition to a digitally connected life possible.

The expectations of consumers and businesses are changing rapidly, fueled by advancements in technology and distribution. The world is now beginning to revolve around a digital axis. It is the PCCW Group's strategy to evolve into a global service provider and digital partner of consumers who adopt new lifestyles and businesses which strive to reinvent themselves at a time when the world is becoming more and more connected. With this objective and the belief that customers are at the heart of everything we do, our core businesses of media, IT (information technology) solutions and telecommunications have been rolling out products and services to meet the needs of our customers.

We connect individuals and businesses in Asia to platforms and infrastructure that deliver an array of value-added digital services.

We are also at the heart of creating content to satisfy consumers' appetite in Asia and beyond. We engage, entertain and inform on the go, anywhere, anytime.

For businesses, we stay central to their ability to compete, enabling them to operate more effectively. We enable their digital transformation so they can improve their competitiveness and stay ahead.

It is my pleasure to report that our businesses demonstrated resilience and turned in a good performance last year, while generating new growth momentum for the Group as it continues its quest to become a key global player.

## ENHANCED MEDIA VIEWING EXPERIENCE

NOW TV continues to enjoy its leadership position in the Hong Kong pay-TV market with more than 1.3 million subscribers at the end of 2015 by focusing on its core strengths in content and customer experience. With more than 200 top-notch content providers from all over the world, NOW TV provides more than 180 channels, many of which offer exclusive, express (within 12-24 hours of telecast in the U.S. or other origins) and live content that is available for viewers on an on-demand basis. Its multi-screen strategy enables customers to enjoy content on the move via the Internet and mobile devices, in addition to the TV at home.

We will soon introduce a new user interface so customers can find their favorite programs easily by genre or brand, and create their personal TV service with a new My Now feature. To further enhance viewing experience, a new 4K ultra high definition all-in-one appliance, "Now One", powered by Samsung and with a full range of functions, including access to NOW TV, OTT (over-the-top) and DTT (digital terrestrial TV) services, will also be launched shortly jointly with HKT, the telecommunications subsidiary of the Group. Such a comprehensive suite of services will make Now One the centerpiece of home entertainment in Hong Kong.

As part of our strategy to become a regional leader of digital entertainment, PCCW Media has been actively expanding its OTT business following its earlier acquisition of Vuclip, the Silicon Valley-based mobile video platform. Our OTT offering has a presence in 12 countries with nine million subscribers. Content is available in more than 30 languages and delivered across variable network conditions and devices using patented Dynamic Adaptive Transcoding technology.

Viu OTT was launched in Hong Kong last October. Based on a freemium model, it offers Hong Kong users access to premium content sourced from Korea, Japan, mainland China and Taiwan on multi-platforms and devices. For instance, Korean drama series and variety shows can be offered with Traditional Chinese subtitling as soon as eight hours after local telecast. Shortly after its launch, the Viu app became number one in Hong Kong on the App Store and Google Play Store charts for free apps.

### **FREE TV READY TO AIR**

In April 2015, the Hong Kong Government formally granted a Domestic Free Television Programme Service License to HK Television Entertainment Company Limited (HKTVE). Then in July, the Government announced the allocation of a certain amount of broadcast frequency spectrum to HKTVE for the delivery of its content to the Hong Kong audience.

HKTVE is actively preparing for the launch of the free TV service, which is branded ViuTV. A soft launch is scheduled for March and public broadcast of its Cantonese digital channel, Channel 99, via DTT frequency spectrum will commence in the following month.

ViuTV is committed to driving the continuous development and sustainability of Hong Kong's TV industry. As a comprehensive and quality channel, ViuTV's program lineup will include locally produced factual entertainment, news and financial content, international sports, dramas and variety shows, and information and cultural programs, etc.

### **DRIVING GROWTH IN INFORMATION TECHNOLOGY SERVICES**

PCCW Solutions, the Group's IT services flagship, aims to drive growth through strengthening its offerings for targeted industries and expanding its footprint in Greater China and the Asia Pacific region. It provides a range of digital and IoT (Internet of Things) solutions and platforms, and cloud services to support enterprises' digital transformation and business needs, cooperating with strategic alliances where it is beneficial to customers. Last year, PCCW Solutions continued to maintain a leadership position winning major IT projects and contracts in both the public and commercial sectors in Hong Kong, the Mainland and elsewhere.

A significant business development took place in December when PCCW Solutions launched "Infinitum", a cloud solutions suite comprised of a comprehensive range of enterprise business applications and digital and analytics solutions. Scalable and cost-effective, Infinitum enables customers to move their back-office applications to the cloud and focus on innovation of their products and services.

Infinitum's enterprise business applications consist of back-office applications, front-office applications and business processes that can be delivered as a service. Digital solutions are a portfolio of industry-specific as well as domain agnostic functional solutions. Infinitum also supports business data analytics to be delivered to customers as a service, a vital tool for enterprises to make strategic and tactical business decisions.

To offer reliable cross-border services, PCCW Solutions has also formed a joint venture data center operation in Guangdong, China which has acquired both Internet Data Center (IDC) and Internet Service Provider (ISP) licenses in the province. This represents new growth potential for co-location services and hosting IP (intellectual property) centers for global software providers, as well as for registering cloud solutions.

## STEADY CONTRIBUTION FROM TELECOM SERVICES

The broadband business recorded a solid performance despite intense competition. HKT continued to record an expansion of customer base, with a steady double-digit growth in the number of customers using our genuine fiber-to-the-home (FTTH) service. During the third quarter, NETVIGATOR commercially launched its 10Gbps fiber service – the first in Hong Kong – following a pilot period in the first half.

On mobile services, consolidation of the HKT radio cell sites and those acquired from CSL Holdings (previously CSL New World Mobility) was completed at the end of 2015, resulting in better user experience and significant cost savings following the closure of more than 1,500 redundant sites. Full integration of the core networks is also progressing well.

HKT has been able not only to harness the latest technologies, as exemplified by its ability to demonstrate increasingly higher mobile network speeds, but also to continuously innovate in services and products. Last year, HKT introduced a mobile payment service Tap & Go, which can be used by mobile users for payment at shops, online purchase, and peer-to-peer money transfers.

## PROPERTY PROJECTS PROGRESSING WELL

The major project of Pacific Century Premium Developments (PCPD), a Premium Grade A office building in Jakarta, Indonesia made substantial progress in construction and lease discussions in the past year. In September, Citibank, N.A., Indonesia signed an agreement in relation to its commitment to take up over five floors of the 40-storey building. PCPD is also discussing with other potential tenants. Located in the Sudirman CBD (Central Business District), the building is targeted for completion in 2017.

Following the LEED Platinum Grade Pre-certification awarded by the U.S. Green Building Council in 2014, the project was last year conferred more awards including the GreenShip Design Recognition Platinum Grade certification, Winner of the Best Green Development in the Indonesia Property Awards, and a Highly Commended Best Green Development (South East Asia). These recognitions help attract prestigious global tenants who share the same values of environmental protection and sustainable development.

For the resort project in Japan, PCPD has entered into an agreement with Hyatt Hotels Corporation which will manage the first hotel of the project, Park Hyatt Niseko, Hanazono. Expected to open in 2019, the hotel will be a pivotal part of PCPD's resort and residential development in Niseko.

In 2016, PCPD will continue its effort in seeking suitable projects around the world.

## LOOKING AHEAD

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

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

The IT solutions business has identified a number of growth drivers and will capitalize on the increasing market demand for digital, IoT, and cloud solutions and facilities in Hong Kong and mainland China.

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

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



**BG Srinivas**

Group Managing Director  
February 26, 2016

# BOARD OF DIRECTORS

## EXECUTIVE DIRECTORS

### LI Tzar Kai, Richard

#### Chairman

Mr Li, aged 49, was appointed an Executive Director and the Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is an Independent Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

### Srinivas Bangalore GANGAIAH

#### (aka BG Srinivas)

#### Group Managing Director

Mr Srinivas, aged 55, was appointed an Executive Director and Group Managing Director of PCCW effective from July 2014. He is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust.

Mr Srinivas holds a degree in mechanical engineering from Bangalore University, India, and has participated in executive programs at Wharton Business School, US, and Indian Institute of Management Ahmedabad (IIMA), India. Prior to joining PCCW, Mr Srinivas has worked for the last 15 years with Infosys Group, where his last role was the President and Whole-time Director of Infosys Limited. He has also acted as Chairman of the board of Infosys Lodestone and a member of the board of Infosys Sweden. Prior to that, Mr Srinivas worked for 14 years with Asea Brown Boveri Group, where he held several leadership positions. Mr Srinivas has been on the panel of judges for the European Business Awards (EBA) for three consecutive years and is a frequent speaker at academic institutions such as INSEAD and Saïd Business School, Oxford.

### HUI Hon Hing, Susanna

#### Group Chief Financial Officer

Ms Hui, aged 51, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust. Ms Hui is a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was the Director of Group Finance of PCCW from September 2006 to April 2007. Before that, Ms Hui was the Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

## NON-EXECUTIVE DIRECTORS

### **LEE Chi Hong, Robert**

#### **Executive Director**

Mr Lee, aged 64, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries. He is also an Executive Director, the Chief Executive Officer and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

Mr Lee was previously an Executive Director of Sino Land Company Limited (Sino Land), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Thomas Eggar incorporating Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee is a member of the International Council of the Louvre as well as Ambassador for the Louvre in China.

He graduated from Cornell University in the United States in 1975 with a bachelor's degree in political science.

### **Sir David FORD, KBE, LVO**

#### **Non-Executive Director**

Sir David, aged 81, was appointed a Non-Executive Director of PCCW in June 2002 and is a Director of certain PCCW subsidiaries. He is also a Director of certain companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Hong Kong Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

### **TSE Sze Wing, Edmund, GBS**

#### **Non-Executive Director**

Mr Tse, aged 78, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also a member of the Regulatory Compliance Committee of the Board.

Mr Tse is the Non-Executive Chairman and a Non-Executive Director of AIA Group Limited. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was

Senior Vice Chairman – Life Insurance of AIG. From 2000 until June 2009, he was Chairman and Chief Executive Officer of American International Assurance Company, Limited and from 2005 until April 2015, he was the Chairman of The Philippine American Life and General Insurance Company. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited and a Director of Bridge Holdings Company Limited which are asset management companies owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW. Mr Tse was a Non-Executive Director of PICC Property and Casualty Company Limited from June 2004 until July 2014.

Mr Tse was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

## LU Yimin

### Deputy Chairman

Mr Lu, aged 52, became a Non-Executive Director of PCCW in May 2008. He was appointed Deputy Chairman in November 2011 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited<sup>#</sup>). He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a researcher level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

## LI Fushen

### Non-Executive Director

Mr Li, aged 53, became a Non-Executive Director of PCCW in July 2007 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust and is a member of HKT's Regulatory Compliance Committee.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited<sup>#</sup>). He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as a Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

## ZHANG Junan

### Non-Executive Director

Mr Zhang, aged 58, became a Non-Executive Director of PCCW in August 2014 and is a member of the Remuneration Committee of the Board.

Mr Zhang is a Director and Vice President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited<sup>#</sup>) and an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited (Unicom HK). He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

Mr Zhang joined 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited<sup>#</sup>) in December 2005 and currently serves as Director and Vice President. Mr Zhang was appointed as Vice President of Unicom HK in April 2006, Executive Director of Unicom HK from April 2006 to October 2008 and Senior Vice President of Unicom HK in February 2009. He previously served as a Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of Anhui Provincial Telecommunications Company and Chairman and General Manager of Anhui Provincial Telecommunications Co., Limited. In addition, Mr Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited.

Mr Zhang graduated from Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master's degree in Business Administration from Australian National University in 2002 and received a doctor's degree in Business Administration from Hong Kong Polytechnic University in 2008. Mr Zhang has worked in the telecommunications industry for a long period of time and has rich management experience.

<sup>#</sup> For identification only

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### **WEI Zhe, David**

#### **Non-Executive Director**

Mr Wei, aged 45, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of the Remuneration Committee of the Board.

Mr Wei has over 15 years of experience in both investment and operational management in the People's Republic of China. Prior to launching Vision Knight Capital (China) Fund I, L.P., a private equity investment fund in 2011, Mr Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on The Stock Exchange of Hong Kong Limited in 2007. Alibaba.com Limited was delisted in June 2012. Prior to Alibaba.com Limited, Mr Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, the then subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Limited. Prior to that, Mr Wei served as the head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited and an independent director of 500.com Limited, and was also the vice chairman of China Chain Store & Franchise Association. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr Wei is also a non-executive director of Zhong Ao Home Group Limited which is listed on The Stock Exchange of Hong Kong Limited, and an independent director of Leju Holdings Limited which is listed on the New York Stock Exchange and Shanghai M&G Stationery Inc. which is listed on the Shanghai Stock Exchange.

He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

### **Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP**

#### **Independent Non-Executive Director**

Sir David, aged 76, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was a Director of China Overseas Land & Investment Limited, AFFIN Holdings Berhad and CaixaBank, S.A.

Sir David is the Chairman of The Chinese Banks' Association Limited and the Honorary Chairman of The Chamber of Hong Kong Listed Companies. He is also a member of the Council of the Treasury Markets Association. He was a member of the Legislative Council of Hong Kong from 1985 to 2012.

### **Aman MEHTA**

#### **Independent Non-Executive Director**

Mr Mehta, aged 69, became an Independent Non-Executive Director of PCCW in February 2004 and is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board. He is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairman of HKT's Nomination Committee.

He joined the Board following a distinguished career in the international banking community. Mr Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (HSBC) until December 2003, when he retired.

Born in India in 1946, Mr Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager – Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager – International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr Mehta was reappointed General Manager – International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources plc in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India) Limited and Wockhardt Limited in Mumbai, India; and Max India Limited and Cairn India Limited in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited and an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial, Inc. in the United States.

**Frances Waikwun WONG**

**Independent Non-Executive Director**

Ms Wong, aged 54, was appointed an Independent Non-Executive Director of PCCW effective from March 2012 and is the Chairwoman of the Regulatory Compliance Committee, and a member of the Nomination Committee and the Remuneration Committee of the Board. She is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairwoman of HKT's Remuneration Committee, and an Independent Non-Executive Director of Pacific Century Regional Developments Limited.

Ms Wong is currently a financial advisor of Good Harbour Finance Limited. She began her career as a management consultant at McKinsey & Company in the United States in 1986. Ms Wong returned to Hong Kong and joined the Hutchison Whampoa group of companies in 1988, taking on various positions. She was managing director of Weatherite Manufacturing Limited, an air conditioning manufacturer. Later, Ms Wong became chief executive officer of Metro Broadcast Corporation Limited. Eventually, she became chief financial officer of Star TV, Asia's first satellite television company. After leaving the Hutchison Whampoa Group in 1992, she became group chief financial officer for the Pacific Century Group. After she resigned from the Pacific Century Group, she founded the Independent Schools Foundation in Hong Kong in 2000.

Ms Wong was educated in the United States at Stanford University where she received a Bachelor of Science degree. She holds a Master of Science degree from the Massachusetts Institute of Technology. Ms Wong was a member of the Central Policy Unit, the Government of the Hong Kong Special Administrative Region (think tank). She has served on many educational boards including the Canadian International School of Hong Kong, The Open University of Hong Kong and was a member of the Joint Committee on Student Finance of Student Financial Assistance Agency.

**Bryce Wayne LEE**

**Independent Non-Executive Director**

Mr Lee, aged 51, was appointed an Independent Non-Executive Director of PCCW in May 2012 and is a member of the Audit Committee and the Remuneration Committee of the Board.

Mr Lee is a managing director of Silver Lake Kraftwerk, an investment firm that provides growth capital in the energy and resource sectors. Previously, he was a managing director of Credit Suisse Group AG (Credit Suisse) in the Investment Banking division, serving as head of the Technology Group for the Americas and as co-head of the Alternative Energy Group. Mr Lee was instrumental in building Credit Suisse's investment banking franchises in Asia and in cleantech, and was named to Forbes magazine's "Midas List" of the top 100 technology dealmakers in the world. He was a member of Credit Suisse's Investment Banking Committee and served on the Managing Director Evaluation Committee. Mr Lee has led numerous transactions for industry leaders in the TMT (telecom, media and technology) and cleantech sectors in the United States and globally. Over his 19 years at Credit Suisse, Mr Lee has executed and advised on over US\$88.7 billion capital markets and M&A advisory transactions globally for public and private TMT and cleantech companies. Mr Lee holds a Bachelor of Arts degree in Economics and Asian Languages from Stanford University.

**Lars Eric Nils RODERT**

**Independent Non-Executive Director**

Mr Rodert, aged 54, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

Mr Rodert is a director of ÖstVäst Capital Management. He is a director of Brookfield Property Partners L.P.'s General Partner since April 2013 and he served as a director of Brookfield Infrastructure Partners L.P.'s Managing General Partner from December 2010 to April 2013. He was a Senior Portfolio Manager for Inter IKEA Treasury in North America and Europe. Prior to this role, he was most recently Chief Investment Officer, Global Equities, at SEB Asset Management and prior to that he was Head of North American Equities at the same firm. Based in Sweden, Mr Rodert has an in depth knowledge of continental European markets and is seasoned in analyzing investment opportunities. He holds a Bachelor of Arts degree from Stockholm University, with a major in finance.

**David Christopher CHANCE**

**Independent Non-Executive Director**

Mr Chance, aged 58, was appointed an Independent Non-Executive Director of PCCW and the Independent Non-Executive Chairman and Director of PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW in November 2013.

Mr Chance is the Non-Executive Chairman of Modern Times Group MTG AB and the Non-Executive Chairman of Top Up TV Ltd. He is also a Non-Executive Director of Olswang LLP, an international law firm. He has significant senior management experience particularly in the area of pay television having been formerly the Executive Chairman of Top Up TV Ltd. between 2003 and 2011 and the Deputy Managing Director of British Sky Broadcasting Group plc between 1993 and 1998. He was also a Non-Executive Director of ITV plc and O2 plc. He graduated with a Bachelor of Arts degree, a Bachelor of Science degree and a Master of Business Administration degree from the University of North Carolina.

# CORPORATE GOVERNANCE REPORT

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

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, of the Company and its subsidiaries (collectively the “Group”).

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct our business in the following areas: civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which we should conduct our business to enhance its positive contribution to society and the environment.

## CORPORATE STRATEGY

PCCW, in conjunction with its listed subsidiary HKT Limited (“HKT”), offers a unique quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access and mobile platforms. PCCW also owns one of the leading IT solutions providers in Hong Kong and mainland China, as part of its core business. PCCW’s strategy for generating and preserving shareholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that PCCW provides to its customers. PCCW also invests prudently in innovative new technology and attractive content offerings for its highly successful **NOW** TV service and its over-the-top (OTT) service, and to develop the scale and capabilities of its IT solutions business. PCCW generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to develop the growth businesses (IT solutions and TV & new media) which are wholly-owned by PCCW and to maintain its majority ownership of HKT.

## CORPORATE GOVERNANCE CODE

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

## MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions, namely the PCCW Code of Conduct for Securities Transactions (the “PCCW Code”), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

Having made specific inquiries of all directors of the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this annual report.

The directors’ and chief executives’ interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 38 to 66 of this annual report.

## BOARD OF DIRECTORS

The board of directors (the “Board”) is responsible for the management of the Company. Key responsibilities of the Board include formulation of the overall strategies of the Group, the setting of management targets, and supervision of management performance. The Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman of PCCW:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time) for which Board approval must be sought from time to time;
- those functions and matters for which Board approval must be sought in accordance with the Group’s internal policies (as amended from time to time);
- consideration and approval of financial statements in interim and annual reports, and announcements of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring of the corporate governance practices and procedures; and maintenance of appropriate and effective risk management and internal control systems of the Group to ensure compliance with applicable rules and regulations.

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is BG Srinivas. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for ensuring the Board functions effectively, for providing leadership for the Board in setting objectives and strategies, and for ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the day-to-day management and operations of the Company and for implementing the Group’s strategies. Details of the composition of the Board are set out in the Report of the Directors on pages 38 to 66 of this annual report.

All directors have full and timely access to all relevant information, including monthly updates from the management, regular reports from various Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company as appropriate.

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2015, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The statement of the external auditor of the Company relating to its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor’s Report on page 67 of this annual report.

As at the date of this report, the Board is comprised of 16 directors including four executive directors, six non-executive directors and six independent non-executive directors. At least one-third of the Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors are set out on pages 12 to 16 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

Biographies of senior corporate executives and heads of business units of the Group as at the date of this report are available on the Company’s website ([www.pccw.com](http://www.pccw.com)).

The Board held four meetings in 2015. The annual general meeting of the Company was held on May 7, 2015 with the attendance of the external auditor to answer questions.

## BOARD OF DIRECTORS (CONTINUED)

The attendance of individual directors at the Board, the Board committee meetings and the annual general meeting held in 2015 is set out in the following table:

| Meetings attended/eligible to attend in 2015 <i>(Note 1)</i>                                                     |                     |                    |                         |                           | Annual<br>General<br>Meeting |
|------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|-------------------------|---------------------------|------------------------------|
| Directors                                                                                                        | Board               | Audit<br>Committee | Nomination<br>Committee | Remuneration<br>Committee |                              |
| <b>Executive Directors</b>                                                                                       |                     |                    |                         |                           |                              |
| Li Tzar Kai, Richard <i>(Chairman of the Board)</i>                                                              | 4/4                 | N/A                | 1/1                     | N/A                       | 1/1                          |
| BG Srinivas <i>(Group Managing Director)</i>                                                                     | 4/4                 | N/A                | N/A                     | N/A                       | 1/1                          |
| Hui Hon Hing, Susanna <i>(Group Chief Financial Officer)</i>                                                     | 4/4                 | N/A                | N/A                     | N/A                       | 1/1                          |
| Lee Chi Hong, Robert                                                                                             | 3/4                 | N/A                | N/A                     | N/A                       | 1/1                          |
| <b>Non-Executive Directors</b>                                                                                   |                     |                    |                         |                           |                              |
| Sir David Ford                                                                                                   | 2/4                 | N/A                | N/A                     | N/A                       | 0/1                          |
| Tse Sze Wing, Edmund                                                                                             | 4/4                 | N/A                | N/A                     | N/A                       | 1/1                          |
| Lu Yimin <i>(Deputy Chairman of the Board)</i>                                                                   | 2/4 <i>(Note 2)</i> | N/A                | N/A                     | N/A                       | 1/1                          |
| Li Fushen                                                                                                        | 3/4                 | N/A                | 1/1                     | N/A                       | 1/1                          |
| Zhang Junan                                                                                                      | 1/4 <i>(Note 3)</i> | N/A                | N/A                     | 0/2 <i>(Note 3)</i>       | 0/1                          |
| Wei Zhe, David                                                                                                   | 4/4                 | N/A                | N/A                     | 2/2                       | 1/1                          |
| <b>Independent Non-Executive Directors</b>                                                                       |                     |                    |                         |                           |                              |
| Dr The Hon Sir David Li Kwok Po                                                                                  | 4/4                 | N/A                | 1/1                     | 2/2                       | 1/1                          |
| Aman Mehta <i>(Chairman of the Audit Committee, the<br/>Nomination Committee and the Remuneration Committee)</i> | 4/4                 | 3/3                | 1/1                     | 2/2                       | 1/1                          |
| Frances Waikwun Wong <i>(Note 4)</i>                                                                             | 4/4                 | N/A                | 1/1                     | N/A                       | 1/1                          |
| Bryce Wayne Lee                                                                                                  | 4/4                 | 3/3                | N/A                     | 2/2                       | 1/1                          |
| Lars Eric Nils Rodert                                                                                            | 4/4                 | 3/3                | N/A                     | N/A                       | 1/1                          |
| David Christopher Chance                                                                                         | 4/4                 | N/A                | N/A                     | N/A                       | 1/1                          |

### Notes:

- Directors may attend meetings in person, by telephone or through other means of video conference or by their alternate directors in accordance with the Company's articles of association (the "Articles of Association").
- Attendance at one Board meeting was by an alternate director of Lu Yimin appointed in accordance with the Articles of Association which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.
- Attendance at two Board and one committee meetings was by an alternate director of Zhang Junan appointed in accordance with the Articles of Association which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.
- Appointed as a member of the Remuneration Committee with effect from May 7, 2015.

**BOARD OF DIRECTORS (CONTINUED)**

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all six independent non-executive directors as at the date of this report, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert and David Christopher Chance are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed “**Independent Non-Executive Directors**” in the Report of the Directors of this annual report.

According to the Articles of Association, any director so appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years. The directors who shall retire from office at the forthcoming annual general meeting of the Company are set out on page 44 of this annual report.

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by directors. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; and have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and committees continue to operate effectively and that the performance of the directors and the time commitment in discharging their duties as directors of the Company for the year ended December 31, 2015 were generally satisfactory.

**DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT**

Every newly appointed director of the Company will meet with fellow directors and senior corporate executives to ensure he/she has an understanding of the Company's operations and business, and will receive a tailored induction handbook containing the Company's governance structure, key policies and an overview of director's responsibilities, as well as a briefing by qualified professional on the general and specific duties of director under legal and regulatory requirements.

As part of an ongoing process of director's training, the directors of the Company are updated of the latest developments in applicable legal and regulatory requirements, and the operations, organization and governance policies of the Company. They are provided with written materials from time to time to develop and refresh their knowledge and skills. The company secretary also organizes and arranges seminars on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company, namely, Li Tzar Kai, Richard, BG Srinivas, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Sir David Ford, Tse Sze Wing, Edmund, Lu Yimin, Li Fushen, Zhang Junan, Wei Zhe, David, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert and David Christopher Chance, received updates on the Company's business and relevant rules and regulations. All directors are encouraged to attend the training seminars presented by qualified professionals on legal and regulatory updates organized by the company secretary. The Company has received confirmation from all directors of their respective training records for the year ended December 31, 2015.

**BOARD COMMITTEES**

The Board has established the following committees with defined terms of reference. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the CG Code. The Audit Committee has been structured to only include independent non-executive directors, and the Nomination Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

**Executive Committee and Sub-committees**

The Executive Committee of the Board operates as a general management committee with overall delegated authority from the Board. The Executive Committee determines Group strategies, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board.

The Executive Committee comprises five members, including four executive directors and one non-executive director.

The members of the Executive Committee are:

Li Tzar Kai, Richard (*Chairman*)

BG Srinivas

Hui Hon Hing, Susanna

Lee Chi Hong, Robert

Lu Yimin

## BOARD COMMITTEES (CONTINUED)

### Executive Committee and Sub-committees (continued)

Reporting to the Executive Committee are sub-committees comprising executive directors and members of senior management who oversee all key operating and functional areas within the Group. Each sub-committee has defined terms of reference covering its authority and duties, meets and reports to the Executive Committee on a regular basis.

The *Operational Committee* is chaired by the Group Managing Director and meets from time to time to direct the business units/operations of PCCW Group companies.

The *Risk Management, Controls and Compliance Committee* (formerly known as *Controls and Compliance Committee*), which reports to the Executive Committee, comprises senior members of PCCW's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit, and Risk Management and Compliance departments. The committee reviews procedures for the preparation of PCCW's annual and interim reports and corporate policies of the Group from time to time to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited. In November 2015, the committee was renamed to Risk Management, Controls and Compliance Committee with an expanded work scope to assist directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis.

The *Corporate Social Responsibility Committee*, which reports to the Executive Committee, comprises senior members of PCCW's Group Communications, Group Human Resources, Group Legal Office and Corporate Secretariat, Group Finance, Risk Management and Compliance, Network Planning and Operations, and Group Purchasing and Supply departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment. The committee is also responsible for reviewing the Company's corporate social responsibility strategy, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's corporate social responsibility and related activities.

### Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company to shareholders.

The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the Company's share option scheme(s), as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website at [www.pccw.com/ir](http://www.pccw.com/ir) and the website of Hong Kong Exchanges and Clearing Limited (the "HKEX") at [www.hkexnews.hk](http://www.hkexnews.hk). This committee comprises six members, including four independent non-executive directors and two non-executive directors, and is chaired by an independent non-executive director.

The members of the Remuneration Committee during the year and up to the date of this annual report are:

Aman Mehta (*Chairman*)

Dr The Hon Sir David Li Kwok Po

Wei Zhe, David

Zhang Junan

Frances Waikwun Wong

(appointed with effect from May 7, 2015)

Bryce Wayne Lee

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

## BOARD COMMITTEES (CONTINUED)

### Remuneration Committee (continued)

During the review process, no individual director is involved in decisions relating to his/her own remuneration.

The Remuneration Committee met twice in 2015. The attendance of individual directors at the committee meetings is set out on page 19 of this annual report.

The work performed by the Remuneration Committee during 2015 included:

- (i) review and approval of the 2014 performance bonus for executive directors and senior management;
- (ii) review and approval of the 2015 performance bonus scheme for executive directors and senior management and key performance indicators;
- (iii) review and recommendation of the non-executive directors' fees for 2015 to the Board for approval; and
- (iv) review of the terms of reference of the Remuneration Committee, with a recommendation to the Board for approval the proposed amendment.

Emoluments of directors of the Company for 2015 have been reviewed by the Remuneration Committee at its meeting held on February 26, 2016.

Details of emoluments of each director and senior executives are set out in note 11 to the consolidated financial statements.

### Nomination Committee

The Nomination Committee was formed in May 2003 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board, and to maintain a balance of skills, experience and diversity of perspectives on the Board which are appropriate to the requirements of the Company's business. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEX.

The Board adopted a board diversity policy (the "Board Diversity Policy") with the primary objective of enhancing the effectiveness of the Board and its corporate governance standard. The Company recognizes the importance of having a diverse team of Board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Board and its skills and experience by way of consideration of a number of factors including but not limited to, gender, age, cultural and educational background, and professional experience. When identifying and selecting suitably qualified candidates for recommendation to the Board, the Nomination Committee will give consideration to the Board Diversity Policy whereby selection of candidates will be based on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Nomination Committee reviews and monitors the implementation of the Board Diversity Policy as appropriate.

The Nomination Committee conducted an annual review of the Board's composition taking into account the Board Diversity Policy at its meeting held on February 26, 2016 and formed the view that the Board has maintained an appropriate mix and balance of skills, knowledge, experience, expertise and diversity of perspectives appropriate to the business requirements of the Company.

The Nomination Committee comprises five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

The members of the Nomination Committee are:

Aman Mehta (*Chairman*)  
Dr The Hon Sir David Li Kwok Po  
Li Tzar Kai, Richard  
Li Fushen  
Frances Waikwun Wong

The Nomination Committee met once in 2015. The attendance of individual directors at the committee meeting is set out on page 19 of this annual report.

The work performed by the Nomination Committee during 2015 included:

- (i) review and assessment of the independence of all independent non-executive directors;
- (ii) consideration and recommendation to the Board for approval the list of retiring directors for re-election at the 2015 annual general meeting;

## BOARD COMMITTEES (CONTINUED)

### Nomination Committee (continued)

(iii) annual review of the structure, size and composition of the Board, with a recommendation to the Board for approval; and

(iv) review of the terms of reference of the Nomination Committee.

### Audit Committee

The Audit Committee of the Board is responsible for assisting the Board to ensure objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to shareholders. The Audit Committee is also responsible for assisting the Board to ensure an effective system of internal controls of the Company is in place and ensuring good corporate governance standards and practices are maintained. In November 2015, the Board approved revision of the terms of reference of the Audit Committee effective for accounting period beginning on January 1, 2016 to enhance its accountability in risk management and internal control functions. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEX.

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure external auditors' independence, procedures have been adopted by the Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

The Group's external auditor is PricewaterhouseCoopers. PricewaterhouseCoopers has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PricewaterhouseCoopers and the Company which may reasonably be thought to bear on their independence. In order to maintain the external auditor's independence, it would only be employed for non-audit work if the work does not compromise the external auditor's independence and has been pre-approved by the Audit Committee.

During the year, the external auditor provided audit, audit related and permissible non-audit services to the Group. Audit services include services provided in connection with the audit of the Group's consolidated financial statements. Audit related services include services such as issuance of special audit or assurance reports for tax or other regulatory purposes, accounting advice related to material transactions and reviews of risk management and internal control systems and/or processes, where the external auditor is best placed to undertake in its capacity as auditor. Permissible non-audit services include services such as tax compliance and tax planning services, financial due diligence review and non-financial reporting information systems consultation, which require specific review and approval by the Audit Committee.

For the year ended December 31, 2015, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the Group by the external auditor amounted to approximately HK\$29 million, HK\$4 million and HK\$4 million, respectively.

At its meeting held on February 26, 2016, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2016 at the forthcoming annual general meeting.

The Audit Committee comprises three members, each of them is an independent non-executive director.

The members of the Audit Committee are:

Aman Mehta (*Chairman*)

Bryce Wayne Lee

Lars Eric Nils Rodert

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2015, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 19 of this annual report.

The work performed by the Audit Committee during 2015 included:

- (i) review of the proposed amendments to the Articles of Association, with a recommendation to the Board to put forward the proposed adoption of new Articles of Association at the 2015 annual general meeting for shareholders' approval;
- (ii) review of the annual report and the annual results announcement for the year ended December 31, 2014, with a recommendation to the Board for approval;
- (iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the year ended December 31, 2014, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2015 annual general meeting;
- (iv) review of the annual report on effectiveness of internal controls under the CG Code, with a recommendation to the Board for approval;

## BOARD COMMITTEES (CONTINUED)

### Audit Committee (continued)

- (v) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2014, with a recommendation to the Board for approval;
- (vi) consideration and approval of the Group Internal Audit reports (including the internal audit workplan);
- (vii) review of the interim report and the interim results announcement for the six months ended June 30, 2015, with a recommendation to the Board for approval;
- (viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the six months ended June 30, 2015;
- (ix) review and approval of the audit strategy memorandum (including the terms of audit engagement) for the year ending December 31, 2015;
- (x) review and approval of PricewaterhouseCoopers' pre-year end report for the Audit Committee;
- (xi) consideration and approval of the 2015 audit and non-audit services and pre-approval of the 2016 annual budget for audit and non-audit services;
- (xii) review of the corporate governance report and practices for the year ended December 31, 2014 and the corporate governance disclosure for the six months ended June 30, 2015, with a recommendation to the Board for approval;
- (xiii) review and approval of the report by Risk Management and Compliance department on review of the Group's risk management, corporate governance and internal control systems;
- (xiv) review of the terms of reference of the Audit Committee and of the Controls and Compliance Committee (now known as Risk Management, Controls and Compliance Committee), with a recommendation to the Board for approval the proposed amendments;
- (xv) review of the results of the directors' self-evaluation exercise for the year ended December 31, 2014 to review director's performance of his/her responsibilities and time commitment to the Company's affairs, with a recommendation to the Board for approval; and
- (xvi) review and monitoring of training and continuous professional development for directors and senior management.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2015, with a recommendation to the Board for approval.

### Regulatory Compliance Committee

The Regulatory Compliance Committee comprises three members, including two independent non-executive directors and one non-executive director. It reviews and monitors dealings of the Group with the CK Hutchison Holdings Limited ("CKH Holdings") Group, Cheung Kong Property Holdings Limited ("CK Property") Group and Hong Kong Economic Journal Company Limited ("HKEJ") to ensure that all dealings with these entities are conducted on an arm's-length basis. The Regulatory Compliance Committee is chaired by an independent non-executive director. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEX.

The members of the Regulatory Compliance Committee are:

Frances Waikwun Wong (*Chairperson*)

Tse Sze Wing, Edmund

Dr The Hon Sir David Li Kwok Po

### REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

The Regulatory Compliance Committee of PCCW Media Limited ("PCCW Media") comprises the same members as the PCCW Regulatory Compliance Committee. It reviews and monitors dealings of PCCW Media with the CKH Holdings Group, the CK Property Group and HKEJ to ensure that all dealings with these entities are conducted on an arm's-length basis. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEX.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function. Effective for the accounting period beginning on January 1, 2016, the directors, assisted by the Audit Committee and the Risk Management, Controls and Compliance Committee, are required to assess the effectiveness of the risk management and internal control systems on an ongoing basis. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material misstatement or losses.

The directors, through the Audit Committee and the Risk Management, Controls and Compliance Committee, are kept regularly apprised of significant risks that may impact on the Group's performance. The Audit Committee has, at each regularly scheduled meeting throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management and Compliance department reviews significant aspects of risk management for PCCW Group companies and makes recommendations from time to time to the Audit Committee and other committees as appropriate, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

The Audit Committee of the Company has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control functions, including requiring the management of the Company to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and the Company's business practices in the future.

Group Internal Audit provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer of the Company.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management of the Company. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and executive and senior management of the Company (as the case may be) periodically.

Prior to the delisting of the Company's American Depositary Shares from the New York Stock Exchange, Inc., which became effective on May 18, 2007, the Company adopted policies and procedures to comply with the stringent requirements of the Sarbanes-Oxley Act ("SOA") of the United States. A key requirement of the SOA was to ensure the effectiveness of internal controls and financial reporting by requiring extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company. Following the delisting, the Company has not changed its policies and procedures materially and believes that this will enhance the Company's corporate governance and business practices in the future.

## RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

During 2015, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions with emphasis on information technology, data privacy, systems contingency planning and procurement. Additionally, heads of major business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

In addition to the review of risk management and internal controls undertaken within the Company, from time to time, management and/or the directors will engage professional third parties to assess and comment on the adequacy and effectiveness of the risk management and internal control systems and, where appropriate, recommendations will be adopted and enhancements to the risk management and internal controls will be made.

Further information on risk management and internal controls adopted and implemented by the Group is available under the "Corporate Governance" section on the Company's website.

## COMPANY SECRETARY

Ms Grace M.Y. Lee has been appointed as the Group General Counsel and Company Secretary of the Company since June 2015. She is also the Group General Counsel and Company Secretary of the HKT Trust and HKT Limited. All directors have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, for advising the Board on all corporate governance matters, and for arranging induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed directors. The company secretary facilitates the induction and professional development of directors.

During the year ended December 31, 2015, Ms Lee has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

## SHAREHOLDERS' RIGHTS

### Procedures to convene a general meeting and put forward proposals at general meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company having a right to vote at general meetings may request the directors to call a general meeting of the Company pursuant to the Hong Kong Companies Ordinance. The request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The request may be sent to the Company at the registered office of the Company in hard copy form or in electronic form for the attention of the company secretary, and must be authenticated by the person(s) making it.

Shareholders can refer to the detailed requirements and procedures as set forth in the relevant sections of the Hong Kong Companies Ordinance and the Articles of Association when making any requisitions or proposals for transaction at the general meetings of the Company.

### Procedures by which enquiries may be put to the Board

Shareholders may send enquiries to the Board in writing c/o the Corporate Secretariat with the following contact details:

|            |                                                                                 |
|------------|---------------------------------------------------------------------------------|
| Attention: | Company Secretary                                                               |
| Address:   | 41st Floor, PCCW Tower, Taikoo Place,<br>979 King's Road, Quarry Bay, Hong Kong |
| Fax:       | +852 2962 5725                                                                  |
| Email:     | co.sec@pccw.com                                                                 |

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to promoting and maintaining effective communication with the shareholders (both individual and institutional) and other stakeholders. A Shareholders Communication Policy has been adopted for ensuring the Company provides the shareholders and the investment community with appropriate and timely information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website ([www.pccw.com/ir](http://www.pccw.com/ir)).

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

The Company encourages two-way communications with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's activities is provided in the annual and interim reports and circulars which are sent to the shareholders and are also available on the websites of the Company and the HKEX.

In addition to dispatching this annual report to the shareholders, financial and other information relating to the Group and its business activities is disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 200 of this annual report and also provided in the Shareholders Communication Policy.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the Group's business and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

## CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2015, a special resolution was proposed and passed by the shareholders at the Company's annual general meeting held on May 7, 2015 for the adoption of a set of new Articles of Association of the Company for the purpose of bringing the Company's Articles of Association in line with the new Hong Kong Companies Ordinance which came into effect in March 2014. The new set of Articles of Association is available on the websites of the Company and the HKEX.

By order of the Board

**Grace M.Y. Lee**

*Group General Counsel and Company Secretary*  
Hong Kong, February 26, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### MANAGEMENT REVIEW

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

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

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

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

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

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

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

## OUTLOOK

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

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

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

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

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

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

## FINANCIAL REVIEW BY SEGMENT

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

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

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

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

## HKT

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

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

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

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

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

## Media Business

### NOW TV Business

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

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

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

### OTT Business

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

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

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

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

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

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

### Free TV Business

| For the year ended December 31,<br>HK\$ million | 2014 |     |           | 2015       |             |             | Better/<br>(Worse)<br>y-o-y |
|-------------------------------------------------|------|-----|-----------|------------|-------------|-------------|-----------------------------|
|                                                 | H1   | H2  | Full Year | H1         | H2          | Full Year   |                             |
| <b>Free TV Business EBITDA<sup>1</sup></b>      | (4)  | (4) | (8)       | <b>(8)</b> | <b>(32)</b> | <b>(40)</b> | (400)%                      |

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

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

### Solutions Business

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

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

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

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

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

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

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

## PCPD

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

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

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

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

## COSTS

### Cost of Sales

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

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

## Other Businesses

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

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

## Eliminations

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

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

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

### General and Administrative Expenses

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

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

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

### EBITDA<sup>1</sup>

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

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

### Interest Income and Finance Costs

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

### Income Tax

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

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

### Non-controlling Interests

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

### Consolidated Profit Attributable to Equity Holders of the Company

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

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

### LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

## CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

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

## CAPITAL EXPENDITURE<sup>3</sup>

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

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

## HEDGING

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

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

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

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

## CHARGE ON ASSETS

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

## CONTINGENT LIABILITIES

| As at December 31,<br>HK\$ million | 2014         | 2015         |
|------------------------------------|--------------|--------------|
| Performance guarantees             | 2,338        | <b>2,391</b> |
| Tender guarantees                  | 52           | –            |
| Others                             | 99           | <b>90</b>    |
|                                    | <b>2,489</b> | <b>2,481</b> |

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

## HUMAN RESOURCES

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

## FINAL DIVIDEND

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

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

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# REPORT OF THE DIRECTORS

The board of directors (the “Board”) presents its report together with the audited consolidated financial statements of PCCW Limited (“PCCW” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2015.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in the Hong Kong Special Administrative Region (“Hong Kong”), and also in mainland China and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in Asia.

The principal activities of the Company’s principal subsidiaries, associates and joint ventures are set out in notes 21 to 23 to the consolidated financial statements.

An analysis of the Group’s performance for the year by operating segment is set out in note 7 to the consolidated financial statements.

## BUSINESS REVIEW

A review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 2015 as well as a discussion on the Group’s future business development are provided in the Statement from the Chairman, the Statement from the Group Managing Director and the Management’s Discussion and Analysis on page 7, pages 8 to 11 and pages 28 to 36 respectively.

Description of the principal risks and uncertainties facing the Group can be found in the paragraphs below.

### Principal Risks and Uncertainties

The directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the industries in which the Group operates as well as others that are common to most if not all other businesses. The directors have established a policy to ensure that significant risks which may adversely affect the Group’s performance and ability to deliver on its strategies, as well as those which may present positive opportunities, are identified, reported, monitored, and managed on a continuous basis.

The following are key risks that are considered to be of most significance to the Group at this time. They have the potential to adversely and/or materially affect the Group’s businesses, financial conditions, results of operations and growth prospects if they are not managed effectively. These key risks are by no means exhaustive or comprehensive, and there may be other risks, in addition to those shown below, which are not known to the Group or which may not be material now but could turn out to be material in the future.

Key risks related to the Group’s businesses and to the industries in which the Group operates include:

*Growth Strategy* – The Group’s business strategy is to focus on the growth of its media and IT solutions’ business both organically and through new business combinations, strategic investments, acquisitions and disposals. If market conditions change, if operations do not generate sufficient funds or for any other reason, the Group may decide to delay, modify or forgo some aspects of its growth strategies.

In addition, the Group continues to expand its operations overseas. This increases its exposure to multiple and occasionally conflicting regulatory regimes. The Group’s lack of familiarity with such overseas markets, in particular the lack of clarity in, and interpretation of, continuously changing laws and regulations increases the risk of the Group’s ability to successfully operate in such markets.

*Competition* – The Group operates in markets and industries where the regulation’s drive to open competition has led to increased competition, pricing pressure, loss of market share, and increased promotional, marketing and customer acquisition expenditures. The Group has operated in this competitive landscape for almost twenty years and has had to adapt its business strategies in light of the changed marketplace.

## BUSINESS REVIEW (CONTINUED)

### Principal Risks and Uncertainties (continued)

*Financial* – The Group operates in a number of jurisdictions and has significant indebtedness and obligations denominated in foreign currencies. The Group is exposed to financial risks, such as, foreign currency risks, interest rate risks and liquidity risks.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital. As for financing, a significant portion of the Group's debt is denominated in foreign currency including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates.

For details of the Group's financial management policies and strategies in managing these financial risks, please refer to the Management's Discussion and Analysis of this annual report and note 37 to the consolidated financial statements.

*Technology* – The Group's operations depend on its ability to innovate and the successful deployment of continuously evolving technologies, particularly its response to technological and industry developments, as well as its ability to foresee and/or rapidly adapt to the emergence of disruptive technologies.

The Group cannot be certain that technologies will be developed in time to meet changing market conditions, that they will perform according to expectations or that they will achieve commercial acceptance.

Additionally, any sustained failure of the Group's network, its servers, or any link in the delivery chain, whether from operational disruption, natural disaster, or otherwise, could have a material adverse effect on the Group's businesses, financial conditions and results of operations.

*Cyber Security* – The Group handles significant amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats. The Group's operations, reputation and financial performance could be adversely impacted if the Group sustains cyber-attacks and/or other data security breaches that disrupt its operations.

*Economic Environment* – The deterioration of global financial markets and a slowdown in global economies may result in a significant decline in demand for the Group's services across both consumer and corporate markets. In addition, changes in the global credit and financial markets may affect the availability of credit and lead to an increase in the cost of financing.

*People* – The Group's success and ability to grow depends largely on its ability to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating, and technical personnel. The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations.

*Regulatory and Operational Compliance* – The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, the Telecommunications Ordinance (Cap. 106), the Broadcasting Ordinance (Cap. 562), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), and the Personal Data (Privacy) Ordinance (Cap. 486). The failure to comply with, or adverse changes to such regulations may adversely affect the Group's reputation, operations and financial performance. Please refer to sub-section headed **"Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group"** below for further discussion on this topic.

*Geopolitical* – Through the activities of the Group's property development interests (Pacific Century Premium Developments), the Group may be exposed to the effects of adverse changes in foreign government policies and regulations, in particular regarding ownership and land supply controls; taxation and currency controls; building codes and approvals; and labour regulations. These may impact on the Group's ability to complete on schedule or budget, and the properties may not achieve anticipated occupancy or returns.

## BUSINESS REVIEW (CONTINUED)

### Principal Risks and Uncertainties (continued)

*Property Development* – The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour; adverse weather conditions; natural disasters; labour disputes with contractors and subcontractors; accidents; changes in government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized.

In addition, discussions on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the paragraphs below.

### Environmental Policies and Performance

As a responsible corporate citizen, PCCW recognizes the importance of good environmental stewardship. In this connection, PCCW has in place a Corporate Social Responsibility ("CSR") Policy and other related policies and procedures. A Corporate Social Responsibility Committee sets forth and promulgates the Company's environmental strategy and other CSR initiatives.

The Group actively participates in various external environmental working groups. PCCW is a council member and one of the founding members of Business Environment Council. In 2015, PCCW continued to voluntarily disclose its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository. In November, PCCW was awarded the CarbonCare® Action Label 2015 for implementing innovative carbon reduction solutions.

PCCW's telecommunications flagship, HKT Limited ("HKT") and its subsidiaries (collectively the "HKT Limited Group"), have been investing in modernizing air-conditioning system and voice network equipment at the exchange centers with better energy efficiency to reduce electricity consumption and carbon emission. The HKT Limited Group has well-established practices in recycling obsolete copper cables and other materials. It also promotes proper handset recycling across its shop network. The Group has also adopted paperless systems and practices in its daily operations such as human resources and procurement as appropriate, as well as in retail shops and for customer services. In May 2015, HKT was awarded the Gold Award in the media and communication sector of the Hong Kong Awards for Environmental Excellence 2014 granted by the Environmental Campaign Committee and the Environmental Protection Department. By virtue of the award, HKT has also been recognized as a Hong Kong Green Organisation. Last year, HKT also won the champion of the Biggest Unit Saver Award (Organization) of the Power Smart Energy Saving Contest 2014 organized by Friends of the Earth (HK) for the second year in a row.

PCCW Solutions data centers are designed and managed with consideration of effective environmental protection. Facilities such as uninterruptible power supply systems, air-conditioning systems, generators and electrical and mechanical services take into account the latest energy saving and environmental care technologies. Its Internet Data Centers (Powerb@se) have attained ISO 14001 Environmental Management System accreditation and its Powerb@se MCX10 Data Center has attained the Leadership in Energy and Environmental Design ("LEED") Platinum Certificate by the U.S. Green Building Council ("USGBC").

Pacific Century Premium Developments also aims to develop green buildings by meeting internationally-recognized standards in environmental protection and sustainable development. These include the adoption of energy-efficient building designs, efficient use of materials in construction and environmental management plan during site operation. Further to the award of the LEED Platinum Grade Pre-certification by USGBC in 2014, its major office building project in Jakarta, Indonesia was awarded the Greenship Design Recognition Platinum Grade certification in 2015. In September, the project was conferred the Winner of the Best Green Development and a Highly Commended Best Office Development in the Indonesia Property Awards. In October, the project was also named as a Highly Commended Best Green Development (South East Asia) in the South East Asia Property Awards 2015.

## **BUSINESS REVIEW** (CONTINUED)

### **Relationships with Stakeholders**

PCCW is committed to operating in a sustainable manner while balancing the interests of our various stakeholders including our employees, customers, suppliers, business partners and the community.

PCCW considers its employees the key to sustainable business growth. We are committed to providing all employees a safe and harassment-free working environment with equal opportunities in relation to employment, reward management, training and career development. This commitment is incorporated in our Corporate Responsibility Policy and Employment Policy. Workplace safety is a priority of the Company that, with due awareness of all employees throughout the year, the Company was able to maintain a high standard of health and safety measures in all company activities. By joining hands with Community Business and Hong Kong Society for the Aged, we have further helped promote removing barriers to inclusion for disabled talents and elderly employees. We have in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For talent acquisition and continuous development, the Company offers graduate trainee programs as well as leadership and talent development programs for fresh talent of different academic backgrounds. Furthermore, to improve employees' health awareness, the Company arranges monthly sessions on personal health care and encourages employees to engage in sports activities by providing two conveniently located sports centers.

PCCW believes direct and effective communication is essential to building up a good partnership between management and employees. A Joint Staff Council is in place as one of the important means of communication. In addition to newsletters and communications through the intranet, the Company holds regular meetings and forums to brief employees on company developments and obtain their feedback and suggestions.

The Group operates Hong Kong's leading telecommunications and pay-TV services with large customer bases across various services. Customer related key performance indicators are set out in the Management's Discussion and Analysis of this annual report.

As a customer-focused service provider, we consider customers as one of the most important stakeholders. We are committed to serving our customers to the best of our ability and continually elevating the level of service excellence. Our customer service representatives can be reached via telephone, or at the HKT Limited Group's retail shops and customer service centers. The HKT Limited Group has also embraced new media platforms as an effective communication channel with our customers. A Customer Advocacy program has been established to collect customer feedback and help us identify areas for further improvement. In recognition of its outstanding customer service, among other awards, the HKT Limited Group won 44 awards in different categories at the Hong Kong Call Centre Association Awards and the Service Retailers of the Year – Category Award (Telecommunications) granted by Hong Kong Retail Management Association in 2015. In addition, the HKT Limited Group has introduced a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers.

PCCW is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. The Group maintains relationship with more than 2,000 suppliers globally. To integrate CSR principles throughout our supply chain, the Company has in place the Group Purchasing Policy and Principles, and a Supplier Code of Conduct to facilitate a common means whereby we can better communicate with our business partners regarding their compliance with local regulations governing labor, health and safety, and the environment. In order to have a better and close monitoring of supplier performance, our buying units conduct supplier performance review yearly targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements.

PCCW supports the community through a diverse range of initiatives serving the elderly, youth, children, students, physically and mentally handicapped, underprivileged and other groups in need, and also narrowing the digital divide in long run. Being the premier telecommunications provider in Hong Kong, the HKT Limited Group provides hardware and communications services for charities and various community groups in need. We care for the safety and communication needs of senior citizens with the continuous sponsorship for the Care for the Elderly Line and Personal Emergency Link service. PCCW has been sponsoring the Youth IT Summer Camp and providing annual scholarships and bursaries to students of computer science, information technology, and other disciplines.

## BUSINESS REVIEW (CONTINUED)

### Relationships with Stakeholders (continued)

The Group's corporate volunteer team, comprising staff volunteers and their families, last year ran 31 ongoing programs and 13 special programs for various charities and social services groups. In 2015, the group volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2014 (Private Organizations – Category 1) by the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department for contributing more than 10,000 hours of volunteer service to the community in 2014. In appreciation of the commitment of staff volunteers, PCCW introduced a Volunteer Appreciation Scheme in July 2015 whereby employees participating in community services may be entitled to volunteer leave days.

PCCW has been a Caring Company of Hong Kong Council of Social Service's Caring Company Scheme for more than 10 years.

### Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group

The Group and its activities are subject to requirements under various laws. These include, among others, the Telecommunications Ordinance (Cap. 106), the Broadcasting Ordinance (Cap. 562), the Trade Descriptions Ordinance (Cap. 362), the Personal Data (Privacy) Ordinance (Cap. 486), the Competition Ordinance (Cap. 619), the Employment Ordinance (Cap. 57), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") apply to PCCW. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

#### Telecommunications Ordinance ("TO")

The Hong Kong Government's policies relating to liberalization of the telecommunications industry has led to increased competition for the Group. Under the TO, the Group has certain obligations and the Communications Authority ("CA") has certain powers to direct the Group to take specified actions (for example, to undertake and provide certain interconnection services and facilities) and to impose the terms and conditions of interconnection. It may also direct its licensees to co-operate and share any facilities owned by them in the public interest. Under the TO, licensees may be fined up to HK\$1 million for repeated breaches.

The CA has concurrent jurisdiction with the Customs and Excise Department to enforce the Trade Descriptions Ordinance and the Competition Commission ("CC") to enforce the Competition Ordinance. These statutes also have penalty clauses, including criminal liability under the Trade Descriptions Ordinance and civil liability under the Competition Ordinance. The Group ensures full compliance via training sessions and meetings with the affected business units. The business units would also request for regulatory and legal support as required. The Group has not been the subject of any substantial penalty or compliance investigation.

#### Broadcasting Ordinance ("BO")

The Company, through its subsidiary, PCCW Media Limited, holds a domestic pay-TV programme services licence. The pay-TV market in Hong Kong is highly competitive. Under the BO, licensees have various programming and compliance obligations. Breaches of the BO, the relevant licence conditions and/or CA's policies may lead to fines (up to HK\$1 million) or licence revocation in extreme cases.

The Company, through its economic interest in HK Television Entertainment Company Limited ("HKTVE"), was granted a free television programme service licence in April 2015. It is HKTVE's intention to launch its free television services via spectrum within the twelve months following the date of the above grant of the licence. The CA has concurrent jurisdiction for licensees under the BO.

#### Trade Descriptions Ordinance ("TDO")

The enforcement of the TDO is generally undertaken by the Customs and Excise Department. To ensure compliance with the TDO, the Group conducts semi-annual training sessions for employees involved in sales and marketing. In addition, all sales and marketing materials are reviewed to ensure compliance. Under the TDO, misrepresentations as to the sale of goods or services, inappropriate sales practices and the omission of relevant information may be a criminal offence, with penalties up to a fine of HK\$500,000 and imprisonment for 5 years. Liability may extend to the Group as well as employees.

## **BUSINESS REVIEW** (CONTINUED)

### **Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group** (continued)

#### **Competition Ordinance ("CO")**

The CO came into effect in December 2015 and is generally consistent with other competition laws. The enforcement of the CO is generally undertaken by the CC, although the CA has concurrent jurisdiction with the CC as to telecommunications and broadcasting licensees. To ensure compliance with the CO and various guidelines issued under the CO, the Group has conducted a series of training sessions for staff involved in sales, marketing, bids, pricing, contracts, strategy formation, etc. Under the CO, cartel activity (i.e., serious anti-competitive conduct) and abuse of significant market power carry a maximum penalty of 10% of annual turnover (up to 3 years). Personal liability up to the same amounts may also apply.

## **GROUP RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended December 31, 2015 are set out in the consolidated income statement on page 68.

An interim dividend of 7.96 HK cents per ordinary share (2014: 6.99 HK cents per ordinary share), totaling approximately HK\$601 million, was paid to shareholders of the Company in October 2015.

The Board has recommended the payment of a final dividend of 17.04 HK cents per ordinary share (2014: 13.21 HK cents per ordinary share) for the year ended December 31, 2015, subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The Board has also proposed to offer eligible shareholders the option to participate in a scrip dividend alternative to elect to receive the final dividend wholly or partly in the form of new shares instead of cash.

## **FINANCIAL SUMMARY**

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 199.

## **FIXED ASSETS**

Details of movements in the Group's property, plant and equipment, investment properties and interests in leasehold land during the year are set out in notes 15 to 17 to the consolidated financial statements.

## **BORROWINGS**

Particulars of the Group's and the Company's borrowings are set out in notes 25(f) and 26 to the consolidated financial statements.

## **SHARES ISSUED**

During the year, the Company issued and allotted a total of 168,173,018 ordinary shares to the shareholders who elected to receive the Company's new shares in lieu of cash in relation to the final dividend of 13.21 HK cents per share for the year ended December 31, 2014 and the interim dividend of 7.96 HK cents per share for the six months ended June 30, 2015 at an average price of HK\$5.088 and HK\$4.096 per share respectively pursuant to the respective scrip dividend schemes.

Details of the shares issued by the Company during the year are set out in note 29 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 32 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2015, less than 30% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

## DIRECTORS

The directors who held office in the Company during the year and up to the date of this report are:

### Executive Directors

Li Tzar Kai, Richard (*Chairman*)

Srinivas Bangalore Gangaiah (aka BG Srinivas) (*Group Managing Director*)

Hui Hon Hing, Susanna (*Group Chief Financial Officer*)

Lee Chi Hong, Robert

### Non-Executive Directors

Sir David Ford, KBE, LVO

Tse Sze Wing, Edmund, GBS

Lu Yimin (*Deputy Chairman*)

Li Fushen

Zhang Junan

Wei Zhe, David

### Independent Non-Executive Directors

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP

Aman Mehta

Frances Waikwun Wong

Bryce Wayne Lee

Lars Eric Nils Rodert

David Christopher Chance

In accordance with Article 101 of the Company's articles of association, Li Tzar Kai, Richard, Tse Sze Wing, Edmund, Wei Zhe, David, Dr The Hon Sir David Li Kwok Po, Aman Mehta and Lars Eric Nils Rodert shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website ([www.pccw.com](http://www.pccw.com)).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all six independent non-executive directors as at the date of this report, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert and David Christopher Chance are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited (“PCRD”, a substantial shareholder of the Company) announced the execution of a term sheet between PCRD Services Pte Ltd (“PCRD Services”, a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited (“KSH”), Pasha Ventures Private Limited (“Pasha Ventures”), Aman Mehta (an independent non-executive director of the Company) and Akash Mehta (the adult son of Aman Mehta) (together, the “Mehta Family”) and Sky Advance Associates Limited (“Sky Advance”, a company controlled by Akash Mehta) in relation to a proposed restructuring (the “Restructuring”) of their respective interests in Pasha Ventures and KSH by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Restructuring, Pasha Ventures was amalgamated with KSH and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. Accordingly, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH are now approximately 49.87%, 2.61% and 12.94% respectively. Aman Mehta is a passive investor in KSH and does not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

Notwithstanding Aman Mehta’s investment in KSH, the Company is of the view that Aman Mehta’s continued independence in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules is not affected by this investment for the following reasons: (i) Aman Mehta’s investment in KSH is a purely passive personal investment; he is not a director of KSH nor has he any involvement or participation in the daily operations and management of KSH; (ii) the business of KSH does not overlap or conflict with the businesses of the Company; and (iii) save as disclosed above, neither Aman Mehta nor Akash Mehta hold any interest, direct or indirect in PCRD and/or its subsidiaries.

## DIRECTORS’ SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2015, the directors and chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units jointly issued by HKT Trust and HKT (the "Share Stapled Units"), underlying shares, underlying Share Stapled Units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

### 1. Interests in the Company

The table below sets out the aggregate long positions in the shares of the Company (the "Shares") held by the directors and chief executives of the Company:

| Name of Director/Chief Executive | Personal interests     | Number of ordinary Shares held |                            |                              | Total         | Approximate percentage of the total number of Shares in issue |
|----------------------------------|------------------------|--------------------------------|----------------------------|------------------------------|---------------|---------------------------------------------------------------|
|                                  |                        | Family interests               | Corporate interests        | Other interests              |               |                                                               |
| Li Tzar Kai, Richard             | –                      | –                              | 297,738,591<br>(Note 1(a)) | 1,866,432,475<br>(Note 1(b)) | 2,164,171,066 | 28.40%                                                        |
| Srinivas Bangalore Gangaiah      | –                      | –                              | –                          | 207,597<br>(Note 2)          | 207,597       | 0.003%                                                        |
| Hui Hon Hing, Susanna            | 2,148,558              | –                              | –                          | 1,806,996<br>(Note 2)        | 3,955,554     | 0.05%                                                         |
| Lee Chi Hong, Robert             | 992,600<br>(Note 3(a)) | 511<br>(Note 3(b))             | –                          | –                            | 993,111       | 0.01%                                                         |
| Tse Sze Wing, Edmund             | –                      | 367,479<br>(Note 4)            | –                          | –                            | 367,479       | 0.005%                                                        |
| Dr The Hon Sir David Li Kwok Po  | 1,095,965              | –                              | –                          | –                            | 1,095,965     | 0.01%                                                         |

#### Notes:

- (a) Of these Shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 260,752,905 Shares and Eisner Investments Limited ("Eisner") held 36,985,686 Shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

### 1. Interests in the Company (continued)

**Notes:** (continued)

1. (b) These interests represented:
  - (i) a deemed interest in 169,639,855 Shares held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 169,639,855 Shares held by PCGH; and
  - (ii) a deemed interest in 1,696,792,620 Shares held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.48% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,696,792,620 Shares held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.
2. These interests represented award(s) made to these directors which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the Purchase Scheme, the details of which are set out in the section below headed **"Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries"**.
3. (a) These Shares were held jointly by Lee Chi Hong, Robert and his spouse.  
  
(b) These Shares were held by the spouse of Lee Chi Hong, Robert.
4. These Shares were held by the spouse of Tse Sze Wing, Edmund.

### 2. Interests in the Associated Corporations of the Company

#### A. PCCW-HKT Capital No.4 Limited

FWD Life Insurance Company (Bermuda) Limited ("FWD") held US\$9,000,000 of 4.25% guaranteed notes due 2016 (the "Notes") issued by PCCW-HKT Capital No.4 Limited, an associated corporation of the Company. Li Tzar Kai, Richard indirectly owned an approximate 84.68% interest in FWD. The Notes have a maturity date of February 24, 2016.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

### 2. Interests in the Associated Corporations of the Company (continued)

#### B. HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the Share Stapled Units held by the directors and chief executives of the Company:

| Name of Director/Chief Executive | Personal interests    | Number of Share Stapled Units held |                           |                            | Total       | Approximate percentage of the total number of Share Stapled Units in issue |
|----------------------------------|-----------------------|------------------------------------|---------------------------|----------------------------|-------------|----------------------------------------------------------------------------|
|                                  |                       | Family interests                   | Corporate interests       | Other interests            |             |                                                                            |
| Li Tzar Kai, Richard             | –                     | –                                  | 66,247,614<br>(Note 1(a)) | 144,786,423<br>(Note 1(b)) | 211,034,037 | 2.79%                                                                      |
| Hui Hon Hing, Susanna            | 1,238,744             | –                                  | –                         | 1,159,003<br>(Note 2)      | 2,397,747   | 0.03%                                                                      |
| Lee Chi Hong, Robert             | 50,924<br>(Note 3(a)) | 25<br>(Note 3(b))                  | –                         | –                          | 50,949      | 0.0007%                                                                    |
| Tse Sze Wing, Edmund             | –                     | 246,028<br>(Note 4)                | –                         | –                          | 246,028     | 0.003%                                                                     |
| Dr The Hon Sir David Li Kwok Po  | 169,302               | –                                  | –                         | –                          | 169,302     | 0.002%                                                                     |

Each Share Stapled Unit confers an interest in:

- (a) one voting ordinary share of HK\$0.0005 in HKT; and
- (b) one voting preference share of HK\$0.0005 in HKT,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT as supplemented, amended or substituted from time to time and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

#### Notes:

1. (a) Of these Share Stapled Units, PCD held 20,227,614 Share Stapled Units and Eisner held 46,020,000 Share Stapled Units.
- (b) These interests represented:
  - (i) a deemed interest in 13,159,619 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH; and
  - (ii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)**

### **2. Interests in the Associated Corporations of the Company (continued)**

#### **B. HKT Trust and HKT Limited (continued)**

*Notes: (continued)*

2. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to an award scheme of HKT, namely the HKT Share Stapled Units Purchase Scheme, the details of which are set out in the section below headed **"Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries"**.
3. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.  
  
(b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.
4. These Share Stapled Units were held by the spouse of Tse Sze Wing, Edmund.

Save as disclosed in the foregoing, as at December 31, 2015, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

## **SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES**

### **1. The Company**

#### **A. Share Option Scheme**

The Company operates a share option scheme which was adopted by the shareholders of the Company at the annual general meeting of the Company held on May 8, 2014 (the "2014 Scheme"). Under the 2014 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

- (1) The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole.
- (2) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.
- (3) The maximum number of Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. As at the date of this annual report, the total number of Shares available for issue in respect of which options may be granted under the 2014 Scheme is 728,229,465, representing approximately 9.56% of the Shares in issue as at that date.

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES (CONTINUED)

### 1. The Company (continued)

#### A. Share Option Scheme (continued)

- (4) The total number of Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Shares in issue and HK\$5 million in aggregate value based on the closing price of the Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.
- (5) The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.
- (6) The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.
- (7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade Shares on the Stock Exchange.
- (8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

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

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

### 1. The Company (continued)

#### B. Share Award Schemes

The Company adopted two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme (collectively the “PCCW Share Award Schemes”) with the purposes and objectives to recognize the contributions by eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

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

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

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

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

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

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES (CONTINUED)

### 1. The Company (continued)

#### B. Share Award Schemes (continued)

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

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the Shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the Shares, in the future. The relevant committee of the Board may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

In respect of the Purchase Scheme, during the year ended December 31, 2015, an aggregate of 3,265,515 Shares and 13,163 Share Stapled Units were granted pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 207,597 and 981,337 Shares made respectively to BG Srinivas and Hui Hon Hing, Susanna (the directors of the Company). Additionally, 40,213 Shares have lapsed and/or been forfeited and 9,390,562 Shares have vested; and 8,917 Share Stapled Units have lapsed and/or been forfeited and 116,097 Share Stapled Units have vested during the year. As at December 31, 2015, 6,964,725 Shares and 190,293 Share Stapled Units granted pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the year ended December 31, 2015, an aggregate of 3,790,428 Shares were granted pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 306,131 Shares have lapsed and/or been forfeited and 2,504,633 Shares have vested during the year. As at December 31, 2015, 6,087,802 Shares granted pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2015, no Share Stapled Units have been granted to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2015 and December 31, 2015, none of the Share Stapled Units granted pursuant to the Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 13,052,527 Shares and 190,293 Share Stapled Units awarded pursuant to the PCCW Share Award Schemes remained unvested, which respectively represent approximately 0.17% of the total number of Shares in issue and 0.003% of the total number of Share Stapled Units in issue as at that date.

Further details of the PCCW Share Award Schemes, including the fair values of the Shares and the Share Stapled Units on the respective dates of award, are set out in note 31(b) to the consolidated financial statements.

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

### 2. HKT Trust and HKT Limited

#### A. Share Stapled Units Option Scheme

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

- (1) The purpose of the HKT 2011-2021 Option Scheme is to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to the eligible participants as incentives or rewards for their contribution to the growth of the HKT Trust and HKT and its subsidiaries (collectively the “HKT Group”) and to provide the HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.
- (2) Eligible participants include (a) any full time or part time employee of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of HKT and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any of its subsidiaries. HKT Management Limited is not an eligible participant under the HKT 2011-2021 Option Scheme.
- (3) (i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the options may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).
- (ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.
- (iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 2011-2021 Option Scheme if this will result in such limit being exceeded.

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

- (4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of HKT, or any of their respective associates) under the HKT 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the HKT 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of HKT, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK\$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES (CONTINUED)

### 2. HKT Trust and HKT Limited (continued)

#### A. Share Stapled Units Option Scheme (continued)

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

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

#### B. Share Stapled Units Award Schemes

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

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

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

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

### 2. HKT Trust and HKT Limited (continued)

#### B. Share Stapled Units Award Schemes (continued)

Pursuant to the scheme rules, no sum of money shall be set aside and no Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Share Stapled Units administered under the respective schemes would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, excluding the Share Stapled Units which have been transferred to eligible participants on vesting. In addition, under the HKT Share Stapled Units Subscription Scheme, no sum of money shall be set aside and no Share Stapled Units shall be subscribed nor any amounts paid to the Trustee for the purpose of making such a subscription if:

- (i) as a result of such subscription, the Company's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the HKT 2011-2021 Option Scheme, and all other rights or entitlements granted by HKT concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or
- (ii) HKT does not have a relevant general mandate or specific mandate from holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

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

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

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

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

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

### 2. HKT Trust and HKT Limited (continued)

#### B. Share Stapled Units Award Schemes (continued)

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

During the year ended December 31, 2015, an aggregate of 1,572,820 Share Stapled Units were granted subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including an award in respect of 280,370 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 705,059 Share Stapled Units have lapsed and/or been forfeited and 5,707,168 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 8,155,710 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.11% of the total number of Share Stapled Units in issue as at that date. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2015.

Further details of the HKT Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 31(d)(ii) to the consolidated financial statements.

### 3. Pacific Century Premium Developments Limited ("PCPD")

#### Share Option Schemes

At PCPD's annual general meeting held on May 6, 2015, the shareholders of PCPD approved the termination of its share option scheme which was adopted in May 2005 (the "2005 PCPD Scheme") and the adoption of a new share option scheme (the "2015 PCPD Scheme"). The 2015 PCPD Scheme became effective on May 7, 2015 following its approval by the shareholders of the Company. After the termination of the 2005 PCPD Scheme, no further share options will be granted under such scheme, but in all other respects the provisions of such scheme will remain in full force and effect. There is no material difference between the terms of the 2005 PCPD Scheme and the 2015 PCPD Scheme.

PCPD currently operates the 2015 PCPD Scheme, under which the board of directors of PCPD (the "PCPD Board") shall be entitled to offer to grant a share option to any eligible participant whom the PCPD Board may, at its absolute discretion, select. The major terms of the 2015 PCPD Scheme are set out below:

- (1) The purpose of the 2015 PCPD Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCPD and to encourage eligible participants to work towards enhancing the value of PCPD and its shares (the "PCPD Shares") for the benefit of PCPD and its shareholders as a whole.
- (2) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of PCPD and its subsidiaries (the "PCPD Group") or any member of it, whether in full time or part time employment of the PCPD Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCPD Group or any member of it and any other person whomsoever is determined by the PCPD Board as having contributed to the development, growth or benefit of the PCPD Group or any member of it or as having spent any material time in or about the promotion of the PCPD Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2015 PCPD Scheme.
- (3) The maximum number of PCPD Shares in respect of which options may be granted under the 2015 PCPD Scheme shall not in aggregate exceed 10% of the PCPD Shares in issue as at the date of adoption of the 2015 PCPD Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of PCPD Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the PCPD Shares in issue from time to time. As at the date of this annual report, the total number of PCPD Shares available for issue in respect of which options may be granted under the 2015 PCPD Scheme is 40,266,831, representing 10% of the PCPD Shares in issue as at that date.

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

### 3. Pacific Century Premium Developments Limited ("PCPD") (continued)

#### Share Option Schemes (continued)

- (4) The total number of PCPD Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2015 PCPD Scheme in any 12-month period shall not exceed 1% of the PCPD Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates, the said limit is reduced to 0.1% of the PCPD Shares in issue and HK\$5 million in aggregate value based on the closing price of the PCPD Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at a general meeting.
- (5) The 2015 PCPD Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2015 PCPD Scheme shall be determined by the PCPD Board, provided that such terms and conditions shall not be inconsistent with the 2015 PCPD Scheme and no option may be exercised 10 years after the date of grant.
- (6) The 2015 PCPD Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.
- (7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCPD Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the PCPD Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade PCPD Shares on the Stock Exchange.
- (8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCPD Board, the 2015 PCPD Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2015 PCPD Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2005 PCPD Scheme and the 2015 PCPD Scheme since their adoption and up to and including December 31, 2015.

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

## EQUITY-LINKED AGREEMENTS

Details of the share option schemes and the share award schemes of the Group are set out in the section above headed **“Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries”** and note 31 to the consolidated financial statements.

As at December 31, 2015, there also subsisted in the Group certain outstanding bonus convertible notes issued by PCPD in 2012 in the aggregate amount of HK\$592,553,354.40 convertible into 1,185,106,708 ordinary PCPD Shares at the conversion price of HK\$0.50 per PCPD Share. The bonus convertible notes can be converted into PCPD Shares at any time provided that PCPD's minimum public float requirements under the Listing Rules could be complied with.

On May 23, 2013, the PCPD Group entered into a supporting agreement (the “Supporting Agreement”) with ACE Equity Holdings Limited (the “Supporter”), whereby the PCPD Group will settle part of the services received in the value of US\$23 million by means of, among other things, issuing non-voting, non-contributory but dividend participating class B shares (the “Melati Class B Shares”) representing not more than 6.388% of the share capital of PCPD's indirect wholly-owned subsidiary, Melati Holding Limited (“Melati”) to the Supporter. The PCPD Group also granted a put option to the Supporter to require the PCPD Group to purchase all the Melati Class B Shares after the expiry of 5 years from the date of issue of the shares based on then consolidated net asset value of Melati and its subsidiaries.

On May 23, 2013, the PCPD Group also entered into a subscription agreement and a loan purchase agreement (the “Investor Agreements”) with an independent third party (the “Investor”) pursuant to which the PCPD Group will allot to the Investor 9.99% shares (the “Rafflesia Shares”) of Rafflesia Investment Limited (“Rafflesia”) which is an indirect wholly-owned subsidiary of PCPD held by Melati and assign 9.99% of the shareholder's loan to Rafflesia (the “Rafflesia Loan”) at a consideration to be determined at the time of the allotment based on the total investment costs incurred by the PCPD Group on the Indonesian development project plus finance charge. The PCPD Group also granted a put option to the Investor to require the PCPD Group, at any time on or after May 23, 2023, to purchase all the Rafflesia Shares and the Rafflesia Loan based on then consolidated net asset value of Rafflesia and its subsidiaries.

The Supporting Agreement and the Investor Agreements have not been terminated as at December 31, 2015 and details of which can be found in the joint announcement issued by the Company and PCPD dated May 23, 2013, the circular issued by PCPD dated June 25, 2013 and note 31(e) to the consolidated financial statements.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2015, the following persons (other than any directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

| Name of shareholder                                                                                 | Note(s) | Number of<br>Shares/underlying<br>Shares held | Approximate<br>percentage of<br>the total number of<br>Shares in issue |
|-----------------------------------------------------------------------------------------------------|---------|-----------------------------------------------|------------------------------------------------------------------------|
| <b>Interests</b>                                                                                    |         |                                               |                                                                        |
| PCRD                                                                                                |         | 1,696,792,620                                 | 22.26%                                                                 |
| PCGH                                                                                                | 1       | 1,866,432,475                                 | 24.49%                                                                 |
| Star Ocean Ultimate Limited                                                                         | 2 and 3 | 1,866,432,475                                 | 24.49%                                                                 |
| The Ocean Trust                                                                                     | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| The Starlite Trust                                                                                  | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| OS Holdings Limited                                                                                 | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| Ocean Star Management Limited                                                                       | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| The Ocean Unit Trust                                                                                | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| The Starlite Unit Trust                                                                             | 2       | 1,866,432,475                                 | 24.49%                                                                 |
| Star Ocean Ultimate Holdings Limited                                                                | 3       | 1,866,432,475                                 | 24.49%                                                                 |
| Fung Jenny Wai Ling                                                                                 | 4       | 1,866,432,475                                 | 24.49%                                                                 |
| Huang Lester Garson                                                                                 | 4       | 1,866,432,475                                 | 24.49%                                                                 |
| 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited <sup>#</sup> ) ("Unicom") | 5       | 1,424,935,885                                 | 18.70%                                                                 |

### Notes:

- These interests represented (i) PCGH's beneficial interests in 169,639,855 Shares; and (ii) PCGH's interests (through itself and its controlled corporations, being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 88.48% of the issued share capital of PCRD) in 1,696,792,620 Shares held by PCRD.
- On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.
- On November 4, 2013, Star Ocean Ultimate Limited became a controlled corporation of Star Ocean Ultimate Holdings Limited.
- Fung Jenny Wai Ling and Huang Lester Garson were deemed to be interested in such Shares under the SFO as each of them controlled the exercise of one-third or more of the voting power at general meetings of each of Ocean Star Investment Management Limited, OS Holdings Limited and Star Ocean Ultimate Holdings Limited.
- Unicom indirectly held these interests through China Unicom Group Corporation (BVI) Limited, a company wholly-owned by Unicom.

<sup>#</sup> For identification only

**INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO**

As at December 31, 2015, the following person (not being a director or chief executive or substantial shareholder (as disclosed in the previous section headed “**Interests and Short Positions of Substantial Shareholders**”) of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

| Name                                     |      | Number of<br>Shares/underlying<br>Shares held | Approximate<br>percentage of<br>the total number of<br>Shares in issue |
|------------------------------------------|------|-----------------------------------------------|------------------------------------------------------------------------|
| <b>Interests</b>                         |      |                                               |                                                                        |
| Ocean Star Investment Management Limited | Note | 1,866,432,475                                 | 24.49%                                                                 |

**Note:**

Ocean Star Investment Management Limited was deemed interested under the SFO in the Shares by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the notes to the previous section headed “**Interests and Short Positions of Substantial Shareholders**”).

Save as disclosed above in this section and the previous section headed “**Interests and Short Positions of Substantial Shareholders**”, the Company has not been notified of any other persons (other than any directors or chief executives of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at December 31, 2015.

**DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE**

Details of the continuing connected transactions and significant related party transactions are disclosed in this report and in note 5 to the consolidated financial statements.

Save for the above, no other transactions, arrangements or contracts of significance in relation to the Group’s business to which the Company or any its subsidiaries was a party and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**MANAGEMENT CONTRACTS**

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2015, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

| Name of Director     | Name of company                                                                     | Nature of business                                                                                           | Nature of interests                                         |
|----------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Li Tzar Kai, Richard | CK Hutchison Holdings Limited ("CKH Holdings") and its subsidiaries (Note 1)        | Ports and related services, retail, infrastructure, energy and telecommunications                            | (Note 2)                                                    |
|                      | Cheung Kong Property Holdings Limited ("CK Property") and its subsidiaries (Note 1) | Property development and investment, hotel and serviced suite operation, and property and project management | (Note 2)                                                    |
| Lu Yimin             | Unicom and its subsidiaries                                                         | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Vice Chairman and President of Unicom                       |
|                      | China United Network Communications Limited ("Unicom A-Share") and its subsidiaries | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Director and President of Unicom A-Share                    |
|                      | China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries                 | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Executive Director and President of Unicom HK               |
| Li Fushen            | Unicom and its subsidiaries                                                         | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Director, Vice President and Chief Accountant of Unicom     |
|                      | Unicom A-Share and its subsidiaries                                                 | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Director of Unicom A-Share                                  |
|                      | Unicom HK and its subsidiaries                                                      | Provision of wireless, fixed-line, broadband, data and related value-added services                          | Executive Director and Chief Financial Officer of Unicom HK |

**DIRECTORS' INTERESTS IN COMPETING BUSINESS** (CONTINUED)

| Name of Director | Name of company                                             | Nature of business                                                                  | Nature of interests                                       |
|------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Zhang Junan      | Unicom and its subsidiaries                                 | Provision of wireless, fixed-line, broadband, data and related value-added services | Director and Vice President of Unicom                     |
|                  | Unicom A-Share and its subsidiaries                         | Provision of wireless, fixed-line, broadband, data and related value-added services | Director of Unicom A-Share                                |
|                  | Unicom HK and its subsidiaries                              | Provision of wireless, fixed-line, broadband, data and related value-added services | Executive Director and Senior Vice President of Unicom HK |
|                  | China Communications Services Corporation Limited ("CCSCL") | Network construction, outsourcing service, content applications and other services  | Non-Executive Director of CCSCL                           |

In addition, Li Tzar Kai, Richard is a director of certain private companies (the "Private Companies"), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard is a director and Chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through the Company), logistics, property and infrastructure investment and development in the Asia Pacific region.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the section headed **"Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures of the Company and its Associated Corporations"** of this report.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Furthermore, the Group holds minority equity interests in a number of Internet-related companies in which the Group is entitled to appoint, and has appointed, one or more directors to the respective boards of these companies to represent the interests of the Group. Some or all of these companies may compete directly or indirectly, with certain aspects of the Group's business.

Other than as disclosed above, none of the directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

**Notes:**

1. In 2015, Cheung Kong (Holdings) Limited ("Cheung Kong") and Hutchison Whampoa Limited ("HWL") completed a series of corporate activities (the "Reorganization") whereby CKH Holdings and CK Property were created to hold the respective businesses of Cheung Kong and HWL. Certain businesses of CKH Holdings and CK Property may compete with certain aspects of the businesses of the Group during the year.
2. Prior to the completion of the Reorganization, Li Tzar Kai, Richard had a personal interest in 110,000 shares in HWL, and was one of the discretionary beneficiaries of certain discretionary trusts which held units in unit trusts which in turn were interested in certain shares of Cheung Kong and HWL. Immediately following completion of the Reorganization where certain shares of Cheung Kong and HWL were exchanged for the shares of CKH Holdings and CK Property, Li Tzar Kai, Richard have a personal interest in 75,240 shares in each of CKH Holdings and CK Property, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of CKH Holdings and CK Property. Li Tzar Kai, Richard does not hold any shares in HWL after the Reorganization.

## PERMITTED INDEMNITY

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries.

## DONATIONS

During the year, the Group made charitable and other donations of approximately HK\$1.21 million (2014: HK\$1.22 million).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2015, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below in accordance with the Listing Rules.

### 1. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”)

A wholly-owned subsidiary of Unicom is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. In addition, Unicom’s indirect subsidiary is a substantial shareholder of 聯通黃頁信息有限公司 (Unicom Yellow Pages Information Co., Ltd.), an indirect subsidiary of the Company. Accordingly, members of the Unicom Group are connected persons of the Company and transactions between the Group and the Unicom Group constitute connected transactions for the Company under the Listing Rules.

The Group has, from time to time, entered into transactions with the Unicom Group relating to the acquisition and provision of certain information technology services and products (the “Unicom Transactions”). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

It is considered that the entering into of the Unicom Transactions with the Unicom Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that the entering into of the Unicom Transactions with the Unicom Group will further strengthen the Group’s position as a provider of the information technology services in the People’s Republic of China (the “PRC”).

As stated in the Company’s announcement dated December 10, 2014, the Company set the annual caps for each of the following categories of the Unicom Transactions for the three financial years ending December 31, 2017 based on the nature of transactions from time to time entered into with the Unicom Group:

#### (1) Provision of data services by the Group to the Unicom Group

The provision of data services by the Group to the Unicom Group refers to the provision of dedicated networks, in the form of private leased lines or Internet Protocol platforms, for mainly data and voice communication, both locally and internationally.

The charges for these data services may include a one-off charge per circuit and a monthly rental charge. The monthly rental charge may comprise the fixed recurring charge and the variable charge which is determined based on the volume of data usage by the Unicom Group.

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

### 1. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”) (continued)

#### (2) Provision of data services by the Unicom Group to the Group

The provision of data services by the Unicom Group to the Group refers to the provision of dedicated networks, in the form of private leased lines or Internet Protocol platforms, by the Unicom Group to the Group. The dedicated networks are mainly used for data and voice communication, both locally and internationally. The bases of calculation of the payments to be made under the agreements are:

- (a) Payments determined by reference to prices specified in guidance issued by the PRC Government, or in the absence of the PRC Government guidance prices, by reference to the market price of the same or similar data services;
- (b) Agreed unit prices, determined by reference to comparable market prices, the committed contract duration and/or the committed volumes. In this regard, customers committing to a longer contract period or greater volume may enjoy a lower price; and/or
- (c) Agreed pricing for individual services on a case by case basis, by reference to current market offers and comparable market prices for similar services provided on substantially the same terms and conditions.

Each of the bases of calculation described in (a), (b) and (c) above is comparable to those obtained from independent third parties.

#### (3) Provision of systems integration services by the Group to the Unicom Group

The provision of systems integration services by the Group to the Unicom Group refers to the provision of services and/or hardware and/or software required to set up a computer system or network system according to the user's requirements. Such systems integration services provided under the agreements include system design, project management, system implementation, consultancy, software development, testing and maintenance. Many of such systems integration services agreements were entered into following a competitive tender process initiated by the Unicom Group and, accordingly, were entered into on terms and conditions specified by the relevant member of the Unicom Group as part of the tender procedures. The remaining contracts were entered into on an individual basis through direct negotiations with the Unicom Group.

The values of respective systems integration projects are determined by the number of man-hour involved and the unit price per man-hour being charged.

As a general principle, the prices and terms of the agreements with the Unicom Group shall be determined on a commercial arm's length basis, and on terms no less favourable to the Group than terms available to or from independent third parties. The duration or term of each Unicom Transaction will not exceed three years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity within the economic life of the bandwidth capacity (the “IRU Contracts”) available on both groups' networks to and/or from the Unicom Group.

The Group may, from time to time, enter into the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. As disclosed in the Company's announcement dated December 10, 2014, Investec Capital Asia Limited was appointed as the Company's independent financial adviser in accordance with the Listing Rules to advise on the duration of the IRU Contracts to be entered into by the Group and the Unicom Group and was of the opinion that (i) the duration of the IRU Contracts being longer than three years and for up to 15 years is essential to safeguard the interests of the Company and its shareholders; and (ii) it is a normal business practice for contracts of this type to be of such duration.

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

### 1. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”) (continued)

The approximate aggregate value and the annual caps of each category of the Unicom Transactions are set out below:

| Category                                                                       | Approximate aggregate value for the financial year ended December 31, 2015<br>HK\$'000 | Annual cap for the Unicom Group for the financial year ended December 31, 2015<br>HK\$'000 |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| (1) Provision of data services by the Group to the Unicom Group                | 128,517                                                                                | 500,000                                                                                    |
| (2) Provision of data services by the Unicom Group to the Group                | 203,900                                                                                | 600,000                                                                                    |
| (3) Provision of systems integration services by the Group to the Unicom Group | 20,924                                                                                 | 550,000                                                                                    |

As referred to in the Company's announcement dated January 4, 2008, 電訊盈科信息技術(廣州)有限公司 (PCCW Solutions (Guangzhou) Limited) (“PCCW GZ”), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the “Agreement”) with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) (“CNC GD”), the Guangdong branch of China Network Communications Group Corporation (“CNC”) in January 2008 with duration exceeding three years. These transactions constituted continuing connected transactions of the Company under the Listing Rules. It is considered that the entering into of the Agreement with the Unicom Group will complement and ensure stable, uninterrupted and reliable services to be provided by the Group and will allow the Group to achieve its commercial objectives and enhance the core business of the Group, which may enhance the business and performance of the Group.

Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC (the “Lease and Facility and Management Services”). Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is a normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate rental and service fees charged by CNC GD for the year ended December 31, 2015 was HK\$18,919,358 which did not exceed the annual cap for the eighth year of the 15-year term of HK\$35,738,000.

The Unicom Transactions and the Lease and Facility and Management Services are collectively referred to as the “CU Transactions”. The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year 2015.

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

### 2. Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2015 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the CU Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Company to the Stock Exchange.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2015 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## RELATED PARTY TRANSACTIONS

A summary of the significant related party transactions which were undertaken in the normal course of business are set out in note 5 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "**Continuing Connected Transactions**") under the Listing Rules, these transactions are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

## AUDITOR

The consolidated financial statements for the financial year ended December 31, 2015 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Grace M.Y. Lee**

*Group General Counsel and Company Secretary*

Hong Kong, February 26, 2016

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## TO THE SHAREHOLDERS OF PCCW LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of PCCW Limited (the “Company”) and its subsidiaries set out on pages 68 to 198, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, February 26, 2016

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*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*

# CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2015

| In HK\$ million (except for earnings per share) | Note(s) | 2014        | 2015               |
|-------------------------------------------------|---------|-------------|--------------------|
| Revenue                                         | 6 & 7   | 33,277      | <b>39,314</b>      |
| Cost of sales                                   |         | (15,151)    | <b>(18,965)</b>    |
| General and administrative expenses             |         | (14,091)    | <b>(14,534)</b>    |
| Other gains, net                                | 8       | 2,717       | <b>135</b>         |
| Interest income                                 |         | 90          | <b>87</b>          |
| Finance costs                                   | 10      | (1,418)     | <b>(1,634)</b>     |
| Share of results of associates                  |         | 45          | <b>52</b>          |
| Share of results of joint ventures              |         | 5           | <b>(15)</b>        |
| Profit before income tax                        | 7 & 9   | 5,474       | <b>4,440</b>       |
| Income tax                                      | 12      | (803)       | <b>(447)</b>       |
| Profit for the year                             |         | 4,671       | <b>3,993</b>       |
| Attributable to:                                |         |             |                    |
| Equity holders of the Company                   |         | 3,310       | <b>2,295</b>       |
| Non-controlling interests                       |         | 1,361       | <b>1,698</b>       |
| Profit for the year                             |         | 4,671       | <b>3,993</b>       |
| Earnings per share                              | 14      |             |                    |
| Basic                                           |         | 45.14 cents | <b>30.58 cents</b> |
| Diluted                                         |         | 45.05 cents | <b>30.54 cents</b> |

The notes on pages 75 to 198 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2015

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

The notes on pages 75 to 198 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

In HK\$ million

|                                                                                                                 | Note(s) | Attributable to equity holders of the Company | 2014<br>Non-controlling interests | Total equity |
|-----------------------------------------------------------------------------------------------------------------|---------|-----------------------------------------------|-----------------------------------|--------------|
| At January 1, 2014                                                                                              |         | 9,187                                         | (554)                             | 8,633        |
| Total comprehensive income for the year                                                                         |         |                                               |                                   |              |
| Profit for the year                                                                                             |         | 3,310                                         | 1,361                             | 4,671        |
| Other comprehensive income/(loss)                                                                               |         |                                               |                                   |              |
| Items that will not be reclassified subsequently to income statement:                                           |         |                                               |                                   |              |
| Remeasurements of defined benefit obligations                                                                   |         | (15)                                          | –                                 | (15)         |
| Share of other comprehensive loss of an associate                                                               |         | (1)                                           | –                                 | (1)          |
| Items that have been reclassified or may be reclassified subsequently to income statement:                      |         |                                               |                                   |              |
| Exchange differences on translating foreign operations                                                          |         | (320)                                         | (69)                              | (389)        |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal      |         | (1,206)                                       | (118)                             | (1,324)      |
| Available-for-sale financial assets:                                                                            |         |                                               |                                   |              |
| – changes in fair value                                                                                         |         | (47)                                          | (40)                              | (87)         |
| – transfer to income statement on disposal                                                                      |         | (1)                                           | –                                 | (1)          |
| Cash flow hedges:                                                                                               |         |                                               |                                   |              |
| – effective portion of changes in fair value                                                                    |         | 17                                            | (7)                               | 10           |
| – transfer from equity to income statement                                                                      |         | 5                                             | (9)                               | (4)          |
| Other comprehensive loss                                                                                        |         | (1,568)                                       | (243)                             | (1,811)      |
| Total comprehensive income for the year                                                                         |         | 1,742                                         | 1,118                             | 2,860        |
| Transactions with equity holders                                                                                |         |                                               |                                   |              |
| Purchases of shares of PCCW Limited (“PCCW Shares”) under share award scheme                                    |         | (4)                                           | –                                 | (4)          |
| Purchases of share stapled units of HKT Trust and HKT Limited (“Share Stapled Units”) under share award schemes |         | (6)                                           | (3)                               | (9)          |
| Employee share-based compensation                                                                               |         | 74                                            | 22                                | 96           |
| Vesting of PCCW Shares and Share Stapled Units under share award schemes                                        |         | 1                                             | (1)                               | –            |
| Distribution for Share Stapled Units granted under share award schemes                                          |         | (3)                                           | (1)                               | (4)          |
| PCCW Shares issued in lieu of cash dividends                                                                    | 29      | 756                                           | –                                 | 756          |
| Dividend paid in respect of previous year                                                                       | 13 & 32 | (1,009)                                       | –                                 | (1,009)      |
| Dividend declared and paid in respect of the current year                                                       | 13 & 32 | (517)                                         | –                                 | (517)        |
| Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries                         |         | –                                             | (1,211)                           | (1,211)      |
| Total contributions by and distributions to equity holders                                                      |         | (708)                                         | (1,194)                           | (1,902)      |
| Contribution from non-controlling shareholders of a subsidiary                                                  |         | –                                             | 6                                 | 6            |
| Acquisition of a subsidiary                                                                                     |         | –                                             | 36                                | 36           |
| Disposal of a subsidiary                                                                                        |         | –                                             | (124)                             | (124)        |
| Change in ownership interests in a subsidiary without change of control                                         |         | 24                                            | 37                                | 61           |
| Exercise of employee share options of a subsidiary                                                              |         | (6)                                           | 18                                | 12           |
| Rights issue of a subsidiary                                                                                    |         | –                                             | 2,917                             | 2,917        |
| Transaction costs in relation to the issuance of Share Stapled Units                                            |         | (82)                                          | (48)                              | (130)        |
| Total changes in ownership interests in subsidiaries that do not result in a loss of control                    |         | (64)                                          | 2,842                             | 2,778        |
| Total transactions with equity holders                                                                          |         | (772)                                         | 1,648                             | 876          |
| At December 31, 2014                                                                                            |         | 10,157                                        | 2,212                             | 12,369       |

In HK\$ million

|                                                                                              |         | 2015                                          |                           |
|----------------------------------------------------------------------------------------------|---------|-----------------------------------------------|---------------------------|
|                                                                                              | Note(s) | Attributable to equity holders of the Company | Non-controlling interests |
|                                                                                              |         |                                               | Total equity              |
| At January 1, 2015                                                                           |         | 10,157                                        | 2,212                     |
| Total comprehensive income for the year                                                      |         |                                               |                           |
| Profit for the year                                                                          |         | 2,295                                         | 1,698                     |
| Other comprehensive income/(loss)                                                            |         |                                               |                           |
| Items that will not be reclassified subsequently to income statement:                        |         |                                               |                           |
| Remeasurements of defined benefit obligations                                                |         | (18)                                          | –                         |
| Items that have been reclassified or may be reclassified subsequently to income statement:   |         |                                               |                           |
| Exchange differences on translating foreign operations                                       |         | (345)                                         | (57)                      |
| Available-for-sale financial assets:                                                         |         |                                               |                           |
| – changes in fair value                                                                      |         | 10                                            | (20)                      |
| – transfer to income statement on disposal                                                   |         | (1)                                           | –                         |
| Cash flow hedges:                                                                            |         |                                               |                           |
| – effective portion of changes in fair value                                                 |         | (213)                                         | (96)                      |
| – transfer from equity to income statement                                                   |         | (38)                                          | (29)                      |
| Other comprehensive loss                                                                     |         | (605)                                         | (202)                     |
| Total comprehensive income for the year                                                      |         | 1,690                                         | 1,496                     |
| Transactions with equity holders                                                             |         |                                               |                           |
| Purchases of PCCW Shares under share award scheme                                            |         | (29)                                          | –                         |
| Purchases of Share Stapled Units under share award schemes                                   |         | (57)                                          | (37)                      |
| Employee share-based compensation                                                            |         | 69                                            | 18                        |
| Vesting of PCCW Shares and Share Stapled Units under share award schemes                     |         | (2)                                           | 2                         |
| Distribution for Share Stapled Units granted under share award schemes                       |         | (3)                                           | 1                         |
| PCCW Shares issued in lieu of cash dividends                                                 | 29      | 785                                           | –                         |
| Dividend paid in respect of previous year                                                    | 13 & 32 | (985)                                         | –                         |
| Dividend declared and paid in respect of the current year                                    | 13 & 32 | (601)                                         | –                         |
| Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries      |         | –                                             | (1,399)                   |
| Total contributions by and distributions to equity holders                                   |         | (823)                                         | (1,415)                   |
| Contribution from non-controlling shareholders of a subsidiary                               |         | –                                             | 6                         |
| Acquisition of subsidiaries                                                                  |         | –                                             | 19                        |
| Total changes in ownership interests in subsidiaries that do not result in a loss of control |         | –                                             | 25                        |
| Total transactions with equity holders                                                       |         | (823)                                         | (1,390)                   |
| At December 31, 2015                                                                         |         | 11,024                                        | 2,318                     |

The notes on pages 75 to 198 form part of these consolidated financial statements.

# CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2015

| In HK\$ million                                                        | Note* | The Group |                 | (Additional information) |               |
|------------------------------------------------------------------------|-------|-----------|-----------------|--------------------------|---------------|
|                                                                        |       | 2014      | 2015            | The Company<br>2014      | 2015          |
| <b>ASSETS AND LIABILITIES</b>                                          |       |           |                 |                          |               |
| <b>Non-current assets</b>                                              |       |           |                 |                          |               |
| Property, plant and equipment                                          | 15    | 17,337    | <b>18,713</b>   | –                        | –             |
| Investment properties                                                  | 16    | 1,878     | <b>2,084</b>    | –                        | –             |
| Interests in leasehold land                                            | 17    | 464       | <b>442</b>      | –                        | –             |
| Properties held for/under development                                  | 18    | 895       | <b>851</b>      | –                        | –             |
| Goodwill                                                               | 19    | 17,075    | <b>18,183</b>   | –                        | –             |
| Intangible assets                                                      | 20    | 10,195    | <b>10,526</b>   | –                        | –             |
| Interests in subsidiaries                                              |       | –         | –               | 17,072                   | <b>17,072</b> |
| Interests in associates                                                | 22    | 687       | <b>618</b>      | –                        | –             |
| Interests in joint ventures                                            | 23    | 497       | <b>485</b>      | –                        | –             |
| Held-to-maturity investments                                           |       | 1         | –               | –                        | –             |
| Available-for-sale financial assets                                    | 24    | 754       | <b>806</b>      | –                        | –             |
| Deferred income tax assets                                             | 33(a) | 1,059     | <b>1,066</b>    | –                        | –             |
| Other non-current assets                                               |       | 806       | <b>845</b>      | –                        | –             |
|                                                                        |       | 51,648    | <b>54,619</b>   | 17,072                   | <b>17,072</b> |
| <b>Current assets</b>                                                  |       |           |                 |                          |               |
| Amounts due from subsidiaries                                          |       | –         | –               | 16,484                   | <b>18,862</b> |
| Sales proceeds held in stakeholders' accounts                          | 25(a) | 528       | <b>513</b>      | –                        | –             |
| Restricted cash                                                        | 25(b) | 1,022     | <b>106</b>      | –                        | –             |
| Prepayments, deposits and other current assets                         | 25(c) | 6,429     | <b>7,106</b>    | 38                       | <b>36</b>     |
| Inventories                                                            | 25(d) | 801       | <b>774</b>      | –                        | –             |
| Amounts due from related companies                                     | 5(c)  | 95        | <b>90</b>       | –                        | –             |
| Derivative financial instruments                                       | 28    | 49        | <b>60</b>       | –                        | –             |
| Trade receivables, net                                                 | 25(e) | 4,497     | <b>3,969</b>    | –                        | –             |
| Tax recoverable                                                        |       | 27        | <b>17</b>       | –                        | –             |
| Short-term deposits                                                    |       | –         | <b>1</b>        | –                        | –             |
| Cash and cash equivalents                                              | 35(d) | 7,943     | <b>7,503</b>    | 1,093                    | <b>815</b>    |
|                                                                        |       | 21,391    | <b>20,139</b>   | 17,615                   | <b>19,713</b> |
| <b>Current liabilities</b>                                             |       |           |                 |                          |               |
| Short-term borrowings                                                  | 25(f) | (4,823)   | <b>(3,879)</b>  | (946)                    | –             |
| Trade payables                                                         | 25(g) | (2,331)   | <b>(2,494)</b>  | –                        | –             |
| Accruals and other payables                                            |       | (6,787)   | <b>(6,763)</b>  | (11)                     | <b>(12)</b>   |
| Amount payable to the Government under the Cyberport Project Agreement | 27    | (522)     | <b>(322)</b>    | –                        | –             |
| Carrier licence fee liabilities                                        | 34    | (429)     | <b>(448)</b>    | –                        | –             |
| Amounts due to related companies                                       | 5(c)  | (98)      | <b>(69)</b>     | –                        | –             |
| Advances from customers                                                |       | (2,155)   | <b>(2,168)</b>  | –                        | –             |
| Current income tax liabilities                                         |       | (1,873)   | <b>(1,350)</b>  | –                        | –             |
|                                                                        |       | (19,018)  | <b>(17,493)</b> | (957)                    | <b>(12)</b>   |

| In HK\$ million                                             | Note* | (Additional information) |                 |             |                |
|-------------------------------------------------------------|-------|--------------------------|-----------------|-------------|----------------|
|                                                             |       | The Group                |                 | The Company |                |
|                                                             |       | 2014                     | 2015            | 2014        | 2015           |
| <b>Non-current liabilities</b>                              |       |                          |                 |             |                |
| Long-term borrowings                                        | 26    | (36,494)                 | <b>(38,090)</b> | (1,778)     | <b>(2,690)</b> |
| Amounts due to subsidiaries                                 |       | –                        | –               | (2,167)     | <b>(2,987)</b> |
| Derivative financial instruments                            | 28    | (217)                    | <b>(586)</b>    | (117)       | <b>(143)</b>   |
| Deferred income tax liabilities                             | 33(a) | (2,501)                  | <b>(2,775)</b>  | –           | –              |
| Deferred income                                             |       | (1,033)                  | <b>(1,079)</b>  | –           | –              |
| Defined benefit liability                                   | 30(a) | (116)                    | <b>(133)</b>    | –           | –              |
| Carrier licence fee liabilities                             | 34    | (949)                    | <b>(627)</b>    | –           | –              |
| Other long-term liabilities                                 |       | (342)                    | <b>(633)</b>    | –           | –              |
|                                                             |       | (41,652)                 | <b>(43,923)</b> | (4,062)     | <b>(5,820)</b> |
| <b>Net assets</b>                                           |       | 12,369                   | <b>13,342</b>   | 29,668      | <b>30,953</b>  |
| <b>CAPITAL AND RESERVES</b>                                 |       |                          |                 |             |                |
| Share capital                                               | 29    | 11,720                   | <b>12,505</b>   | 11,720      | <b>12,505</b>  |
| Reserves                                                    | 32    | (1,563)                  | <b>(1,481)</b>  | 17,948      | <b>18,448</b>  |
| <b>Equity attributable to equity holders of the Company</b> |       | 10,157                   | <b>11,024</b>   | 29,668      | <b>30,953</b>  |
| <b>Non-controlling interests</b>                            |       | 2,212                    | <b>2,318</b>    | –           | –              |
| <b>Total equity</b>                                         |       | 12,369                   | <b>13,342</b>   | 29,668      | <b>30,953</b>  |

The consolidated statement of financial position was approved and authorized for issue by the board of directors of the Company (the “Board”) on February 26, 2016 and signed on behalf of the Board by

**Srinivas Bangalore Gangaiah**  
Director

**Hui Hon Hing, Susanna**  
Director

\* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2015 and 2014 are presented only as additional information to these consolidated financial statements. The Company statement of financial position as at December 31, 2015 as presented in note 4 was approved and signed by the directors.

The notes on pages 75 to 198 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

| In HK\$ million                                                                 | Note  | 2014            | 2015            |
|---------------------------------------------------------------------------------|-------|-----------------|-----------------|
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                             | 35(a) | 10,553          | <b>12,518</b>   |
| <b>INVESTING ACTIVITIES</b>                                                     |       |                 |                 |
| Proceeds from disposals of property, plant and equipment                        |       | 7               | <b>6</b>        |
| Net inflow of cash and cash equivalents in respect of disposal of subsidiaries  | 35(c) | 6,870           | <b>(452)</b>    |
| Purchases of property, plant and equipment                                      |       | (3,203)         | <b>(3,517)</b>  |
| Payment for investment properties                                               |       | (573)           | <b>(516)</b>    |
| Purchases of intangible assets                                                  |       | (3,538)         | <b>(4,171)</b>  |
| Net outflow of cash and cash equivalents in respect of business combinations    | 35(b) | (18,769)        | <b>(1,241)</b>  |
| Settlement of contingent consideration upon business combinations               | 35(b) | (14)            | <b>(77)</b>     |
| Capital contribution to a joint venture                                         |       | (4)             | <b>–</b>        |
| Loan to an associate                                                            |       | (81)            | <b>(49)</b>     |
| Loan to a joint venture                                                         |       | (68)            | <b>(127)</b>    |
| Repayment of loan from an associate                                             |       | 25              | <b>22</b>       |
| Proceeds from return of investment of joint ventures                            |       | 66              | <b>–</b>        |
| Purchases of available-for-sale financial assets                                |       | (129)           | <b>(117)</b>    |
| Proceeds from return of investments of available-for-sale financial assets      |       | 17              | <b>7</b>        |
| Proceeds from disposal of available-for-sale financial assets                   |       | 1               | <b>6</b>        |
| Proceeds from disposal of an associate                                          |       | –               | <b>87</b>       |
| Proceeds from disposal of other non-current assets                              |       | –               | <b>2</b>        |
| Proceeds from repayment of held-to-maturity investments                         |       | –               | <b>1</b>        |
| Dividends received from associates                                              |       | 12              | <b>8</b>        |
| Decrease/(Increase) in short-term deposits with maturity more than three months |       | 10              | <b>(1)</b>      |
| Purchase of derivative financial instrument                                     |       | –               | <b>(62)</b>     |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                    |       | <b>(19,371)</b> | <b>(10,191)</b> |
| <b>FINANCING ACTIVITIES</b>                                                     |       |                 |                 |
| Proceeds from disposal of interests in a subsidiary without loss of control     | 43(b) | 61              | <b>–</b>        |
| Proceeds from rights issue of the HKT Trust and HKT Limited                     |       | 2,823           | <b>–</b>        |
| Proceeds from exercise of employee share options of a subsidiary                |       | 12              | <b>–</b>        |
| New borrowings raised, net                                                      |       | 54,441          | <b>20,233</b>   |
| Finance costs paid                                                              |       | (1,101)         | <b>(1,135)</b>  |
| Repayments of borrowings                                                        |       | (42,901)        | <b>(19,656)</b> |
| Dividends paid to shareholders of the Company                                   |       | (765)           | <b>(797)</b>    |
| Distribution/Dividends paid to non-controlling shareholders of subsidiaries     |       | (1,248)         | <b>(1,399)</b>  |
| Contribution from non-controlling shareholders of a subsidiary                  |       | 6               | <b>6</b>        |
| Loan granted by the non-controlling shareholder of a subsidiary                 |       | –               | <b>5</b>        |
| <b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>                   |       | <b>11,328</b>   | <b>(2,743)</b>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     |       | <b>2,510</b>    | <b>(416)</b>    |
| Exchange differences                                                            |       | (76)            | <b>(24)</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>                                                |       |                 |                 |
| Beginning of year                                                               |       | 5,509           | <b>7,943</b>    |
| End of year                                                                     | 35(d) | 7,943           | <b>7,503</b>    |

The notes on pages 75 to 198 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

## 1 GENERAL INFORMATION

PCCW Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) and its securities have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since October 18, 1994. The address of its registered office is 41st Floor, PCCW Tower, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (together the “Group”) are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in Asia.

## 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”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. 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 and revised HKFRSs are mandatory for the first time for the financial year beginning January 1, 2015, but had no material effect on the Group’s reported results and financial position for the current and prior accounting periods.

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

The Group has not early adopted any new or revised HKFRSs that are not yet effective for the current accounting period, details of which are set out in note 44.

In addition, the new Hong Kong Companies Ordinance (Cap. 622) abolished the concept of “par value” or “nominal value” of shares and “authorized share capital” for all Hong Kong incorporated companies with effect from March 3, 2014 and this change is reflected in notes 29 and 32.

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

The consolidated statement of financial position for the years ended December 31, 2015 and 2014 include additional information about the Company statement of financial position. The Company statement of financial position as at December 31, 2015 which was prepared in accordance with the requirements of Part 1 “Accounting Disclosures” of Schedule 4 to the new Hong Kong Companies Ordinance (Cap. 622). The Company statement of financial position presented in note 4 was approved and signed by the directors.

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:

- investment properties (see note 2(g));
- available-for-sale financial assets (see note 2(l)(iii)); and
- derivative financial instruments (see note 2(n)).

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the 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 HKAS 39 either in the consolidated income statement or as a charge to other comprehensive income. 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. 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(j)). 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 value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the subsidiary in their capacity as owners. 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.

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

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

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

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 the subsidiaries when necessary to align their accounting policies to ensure consistency with 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.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 2(m)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### d. Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of 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 includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Group's share of the 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 under 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 interest in the associate, 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 are reclassified to the consolidated income statement where appropriate.

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

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

### e. Joint arrangements

Investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

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

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

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

The Group classifies joint arrangements as joint operations when the Group has rights to the individual assets, and obligations for the individual liabilities, relating to the arrangement.

The Group should recognize in relation to its interest in a joint operation:

- i. its assets, including its share of any assets held jointly;
- ii. its liabilities, including its share of any liabilities incurred jointly;
- iii. its revenue from the sale of its share of the output arising from the joint operation;
- iv. its share of the revenue from the sale of the output by the joint operation; and
- v. its expenses, including its share of any expenses incurred jointly.

The Group should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

### f. Property, plant and equipment

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

- buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold 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 income statement as an expense in the period in which they are incurred.

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

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

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 income statement on the date of retirement or disposal.

Freehold land and 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:

|                           |                                                                                     |
|---------------------------|-------------------------------------------------------------------------------------|
| Land and buildings        | Over the shorter of the unexpired term of land lease and the estimated useful lives |
| Exchange equipment        | 5 to 13 years                                                                       |
| Transmission plant        | 5 to 30 years                                                                       |
| Other plant and equipment | Over the shorter of 1 to 17 years and the term of lease                             |

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

### g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group. Property that is being constructed or developed for future use as investment property is also classified as investment property.

Investment properties are stated in the statement of financial position at fair value, based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed periodically by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 2(w)(iii).

Subsequent costs are included in the asset's carrying amount 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 repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties held under finance leases. Lease payments are accounted for as described in note 2(h).

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences between the carrying amount and the fair value of the item arising at the date of transfer is recognized directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognized immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Investment property that is being redeveloped for continued future use as investment property, continues to be measured at fair value and is not reclassified as property, plant and equipment during the redevelopment.

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

### 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 use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

### i. Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property, which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)).

### ii. Assets leased out under operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(w)(iii).

### iii. Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated in the statement of financial position as "Interests in leasehold land" and is amortized to the income statement on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)) or is held for development (see note 2(i)).

### i. Properties held for/under development

Properties under development are carried at the lower of cost and the estimated net realizable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realizable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Properties under development with the development expected to be completed within one year from the end of the reporting period, which have either been pre-sold or are intended for sale, are classified under current assets.

Properties held for development represent interests in land held for future development which are stated in the statement of financial position at cost less impairment losses (see note 2(m)(ii)).

### j. 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 annually for impairment (see note 2(m)(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.

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

### k. Intangible assets (other than goodwill)

#### i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Group and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. At the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the income statement.

#### ii. Carrier licences

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

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the 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 income statement as incurred.

#### iii. Capitalized programme costs

Costs incurred to produce or acquire television rights for which the Group can determine the broadcasting schedules, are capitalized as “intangible assets”. The intangible assets are amortized on an accelerated basis over the shorter of the expected economic life of 1 to 3 years and the licence period. Other costs incurred for the transmission rights for showing programmes, sports events and films on the Group’s television channels, including sport rights for multiple seasons or competitions, of which the broadcasting schedules are determined by the content providers, are recognized in the income statement on a straight-line basis over the period of transmission rights across the season or competition. Other payments made in advance or in arrears of programme costs recognized are stated in the statement of financial position as “Prepayments, deposits and other current assets” or “Accruals and other payables”, as appropriate.

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

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

#### iv. Software

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

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 income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 5-15 years.

#### v. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(m)(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 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                 | 2 to 20 years            |
| Content licence            | 10 years                 |
| Customer base              | 1 to 12 years            |
| Wireless broadband licence | Over the term of licence |

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

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

### I. Investments in debt and equity securities

The Group and the Company classify their investments in debt and equity securities, other than interests in subsidiaries, associates and joint arrangements, as (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments, or (iii) available-for-sale financial assets.

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the statement of financial position at cost less impairment losses (see note 2(m)(i)). The investments are subsequently accounted for based on their classification as set out below:

#### i. Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Any attributable transaction costs are recognized in the income statement as incurred. At the end of each reporting period, the fair value is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 2(w)(v) and 2(w)(vii) respectively.

#### ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and/or the Company have the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Held-to-maturity investments are stated in the statement of financial position at amortized cost less impairment losses (see note 2(m)(i)).

#### iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group and/or the Company intend to dispose of the investment within 12 months from the end of the reporting period.

At the end of each reporting period, the fair value of available-for-sale financial assets is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 2(m)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognized directly in the income statement. Dividend income from these investments is recognized in the income statement in accordance with the policy set out in note 2(w)(vii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 2(w)(v). When the investments are derecognized or impaired (see note 2(m)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the income statement.

Investments in debt and equity securities are recognized or derecognized on the date the Group and/or the Company commit to purchase or sell the investments or they expire.

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

### m. Impairment of assets

#### i. Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than interests in subsidiaries, associates and joint arrangements: see note 2(m)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets; or
- in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

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

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized in other comprehensive income is reclassified from equity to the income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in the income statement.

Impairment losses recognized in the income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity.

Impairment losses in respect of debt instruments classified as available-for-sale financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

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

### m. Impairment of assets (continued)

#### i. Impairment of investments in debt and equity securities and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the 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;
- interests in leasehold land;
- properties held for/under development;
- intangible assets;
- interests in associates and joint arrangements;
- goodwill; and
- interests in subsidiaries (at Company level).

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

#### – Calculation of recoverable amount

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

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

### m. Impairment of assets (continued)

#### ii. Impairment of other assets (continued)

##### – Recognition of impairment losses

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

##### – Reversals of impairment losses

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

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

#### iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Group is required to prepare an interim financial report in compliance with HKAS 34 'Interim Financial Reporting', in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and 2(m)(ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

### n. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the 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(o)).

The full fair value of a hedging derivative is classified as 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 less than 12 months. Trading derivatives are classified as a current asset or liability.

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

### o. Hedging

#### i. Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the income statement within "Finance costs", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the residual period to maturity.

#### ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two paragraphs, the associated cumulative gain or loss is removed from equity and recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the income statement.

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

### p. Inventories

Inventories consist of trading inventories, work-in-progress and consumable inventories.

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

Work-in-progress is stated at the lower of cost, which comprises labor, materials and overheads where appropriate, and the net realizable value.

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

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

### q. Construction contracts

The accounting policy for contract revenue is set out in note 2(w)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and the contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded in the statement of financial position at the net amount of costs incurred plus recognized profits less recognized losses and estimated value of work performed, including progress billing, and are presented in the statement of financial position as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the statement of financial position under "Trade receivables, net".

### r. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)(i)).

### s. Cash and cash equivalents

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

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

### t. 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.

### u. 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 income statement over the period of the borrowings, using the effective interest method.

### v. Provisions and contingent liabilities

Provisions are recognized when (i) the Group or the Company 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.

### w. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

#### i. Telecommunications and other services

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

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the applicable fixed period.

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

Other service income is recognized when services are rendered to customers.

#### ii. Sales of goods

Revenue from sale of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discounts.

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

### w. Revenue recognition (continued)

#### iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

#### iv. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

#### v. Interest income

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

#### vi. Commission income

Commission income is recognized when entitlement to the income is ascertained.

#### vii. Dividend income

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

### x. Borrowing costs

Borrowing costs are expensed in the 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, 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.

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

### y. 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 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 a period, or periods, in which the tax loss or credit can be utilized.

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

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

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

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

### z. Employee benefits

#### i. Short-term employee benefits

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

#### ii. Retirement benefits

The Group operates both defined benefit and 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 contributions from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries if applicable.

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 income statement in the period to which the contributions relate.

The Group's defined benefit liability recognized in the consolidated statement of financial position in respect of defined benefit retirement schemes is the present value of the defined benefit obligation at the end of the reporting period less the fair value of scheme assets. The calculation is performed annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with reference to market bond yields at the end of the reporting period, which have terms approximating the terms of the related liability.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in staff costs in the income statement.

In calculating the Group's defined benefit liability in respect of defined benefit retirement schemes, any actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

#### iii. Share-based payments

The Company operates share option scheme where employees (and including directors) are granted options to acquire PCCW Shares 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 income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share capital account) or the share options expire (when it is released directly to retained profits or accumulated losses). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital.

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

### z. Employee benefits (continued)

#### iii. Share-based payments (continued)

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

The cost of PCCW Shares purchased from the open market under the Purchase Scheme and the issue price of newly issued PCCW Shares under the Subscription Scheme is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of shares under both schemes is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded PCCW Shares is measured by the quoted market price of the PCCW Shares at grant date and is charged to the income statement over the respective vesting period. During the vesting period, the number of awarded PCCW Shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW Shares that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded PCCW Shares recognized as treasury stock is transferred to the employee share-based compensation reserve with difference to be recognized in equity.

The cost of Share Stapled Units purchased from the open market under the Purchase Scheme and the issue price of newly issued Share Stapled Units under the Subscription Scheme is recognized in equity and non-controlling interests. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity is transferred to the employee share-based compensation reserve with difference to be recognized in equity and non-controlling interests.

#### iv. Termination benefits

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

#### aa. Share-based payment transactions with cash alternatives

Share-based payment transactions are those arrangements which the terms provide either the Group or the counterparty with a choice of whether the Group settles the transaction in cash (or other assets) or by issuing equity instruments. Upon the vesting conditions, if any, are met, the Group shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets). Otherwise, the share-based payment transaction is accounted for as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

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

### bb. 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 Company's functional and the Group's presentation currency.

Foreign currency transactions during the year are translated 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 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 financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

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 statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. 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 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 relate to that foreign operation is included in the calculation of the profit or loss on disposal.

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

### cc. Related parties

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

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

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

### dd. Segment reporting

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

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

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.

### ee. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, 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 19, 30(a) and 37 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability 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. Useful lives of property, plant and equipment and intangible assets (other than goodwill)

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

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

During the year ended December 31, 2014, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trend. 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 prospectively from July 1, 2014. As a result of this change in accounting estimate, the Group's profit after non-controlling interests for the year ended December 31, 2014 decreased by HK\$527 million and the net assets after non-controlling interests as at December 31, 2014 decreased by HK\$527 million.

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

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following classes of asset may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- properties held for/under development;
- intangible assets;
- interests in associates and joint arrangements;
- goodwill; and
- interests in subsidiaries (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

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

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

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

For the year ended December 31, 2015, no provision for impairment (2014: HK\$84 million) was recognized on the property held for development (note 18(a)).

For the year ended December 31, 2015, provisions for impairment of interests in an associate and a joint venture of HK\$95 million (2014: HK\$52 million) and HK\$5 million (2014: nil) respectively were recognized resulting in the carrying amount being written down to their respective recoverable amounts (note 8).

#### iii. Revenue recognition

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period. The Group is required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

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

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

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

#### iv. Deferred income tax

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

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****v. Current income tax**

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

**vi. Recognition of intangible asset – Carrier licences**

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

**vii. Estimated valuation of investment properties**

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

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

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

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

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

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

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

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

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

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

#### x. Classification of joint arrangements

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

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

#### xi. Purchase consideration for a plot of land in Indonesia

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

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

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

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

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

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

\* Unofficial company name

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 4 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| In HK\$ million                                | Note | 2014    | 2015    |
|------------------------------------------------|------|---------|---------|
| <b>ASSETS AND LIABILITIES</b>                  |      |         |         |
| <b>Non-current assets</b>                      |      |         |         |
| Interests in subsidiaries                      |      | 17,072  | 17,072  |
|                                                |      | 17,072  | 17,072  |
| <b>Current assets</b>                          |      |         |         |
| Amounts due from subsidiaries                  |      | 16,484  | 18,862  |
| Prepayments, deposits and other current assets |      | 38      | 36      |
| Cash and cash equivalents                      |      | 1,093   | 815     |
|                                                |      | 17,615  | 19,713  |
| <b>Current liabilities</b>                     |      |         |         |
| Short-term borrowings                          |      | (946)   | –       |
| Accruals and other payables                    |      | (11)    | (12)    |
|                                                |      | (957)   | (12)    |
| <b>Non-current liabilities</b>                 |      |         |         |
| Long-term borrowings                           |      | (1,778) | (2,690) |
| Amounts due to subsidiaries                    |      | (2,167) | (2,987) |
| Derivative financial instruments               |      | (117)   | (143)   |
|                                                |      | (4,062) | (5,820) |
| <b>Net assets</b>                              |      | 29,668  | 30,953  |
| <b>CAPITAL AND RESERVES</b>                    |      |         |         |
| Share capital                                  |      | 11,720  | 12,505  |
| Reserves                                       | 32   | 17,948  | 18,448  |
| <b>Total equity</b>                            |      | 29,668  | 30,953  |

Approved and authorized for issue by the Board on February 26, 2016 and signed on behalf of the Board by

**Srinivas Bangalore Gangaiah**  
Director

**Hui Hon Hing, Susanna**  
Director

## 5 RELATED PARTY TRANSACTIONS

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

| In HK\$ million                                                                                                                                     | Note | 2014 | 2015       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------|------|------------|
| Telecommunications service fees, facility management service charges and interest income received or receivable from joint ventures                 | a    | 93   | <b>88</b>  |
| System integration service fees, consultancy service charges, management service charges and interest income received or receivable from associates | a    | 24   | <b>17</b>  |
| Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder                               | a    | 302  | <b>146</b> |
| Telecommunications service fees, outsourcing fees and rental charges paid or payable to joint ventures                                              | a    | 302  | <b>277</b> |
| Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder                                | a    | 144  | <b>186</b> |
| Key management compensation                                                                                                                         | b    | 84   | <b>95</b>  |

a. These 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                                 | 2014      | 2015      |
|-------------------------------------------------|-----------|-----------|
| Salaries and other short-term employee benefits | 56        | <b>69</b> |
| Share-based compensation                        | 25        | <b>14</b> |
| Post-employment benefits                        | 3         | <b>4</b>  |
| Termination benefit                             | –         | <b>8</b>  |
|                                                 | <b>84</b> | <b>95</b> |

### c. Amounts due from/(to) related companies

Other than as specified in notes 22 and 23, balances with related parties are unsecured and non-interest bearing, and have no fixed repayment terms.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 6 REVENUE

| In HK\$ million                                                      | 2014   | 2015          |
|----------------------------------------------------------------------|--------|---------------|
| Telecommunications and other service revenue                         | 29,823 | <b>32,789</b> |
| Amounts received and receivable in respect of goods sold             | 3,260  | <b>6,466</b>  |
| Amounts received and receivable from rental of investment properties | 194    | <b>59</b>     |
|                                                                      | 33,277 | <b>39,314</b> |

### 7 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:

- HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.
- Media Business includes interactive pay-TV service, Internet portal multimedia entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world.
- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong, Macau and mainland China.
- PCPD covers the Group's property portfolio in Hong Kong, mainland China and elsewhere in Asia.
- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

## 7 SEGMENT INFORMATION (CONTINUED)

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

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms 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.

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

| In HK\$ million                                                                                                                                                        |        |                   |                       | 2014                |       |              |              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------|-----------------------|---------------------|-------|--------------|--------------|
|                                                                                                                                                                        | HKT    | Media<br>Business | Solutions<br>Business | Other<br>Businesses | PCPD  | Eliminations | Consolidated |
| <b>REVENUE</b>                                                                                                                                                         |        |                   |                       |                     |       |              |              |
| External revenue                                                                                                                                                       | 28,493 | 2,118             | 2,319                 | 44                  | 303   | –            | 33,277       |
| Inter-segment revenue                                                                                                                                                  | 330    | 1,113             | 1,051                 | –                   | 12    | (2,506)      | –            |
| Total revenue                                                                                                                                                          | 28,823 | 3,231             | 3,370                 | 44                  | 315   | (2,506)      | 33,277       |
| <b>RESULTS</b>                                                                                                                                                         |        |                   |                       |                     |       |              |              |
| EBITDA                                                                                                                                                                 | 10,242 | 452               | 622                   | (630)               | (166) | (180)        | 10,340       |
| <b>OTHER INFORMATION</b>                                                                                                                                               |        |                   |                       |                     |       |              |              |
| Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations | 2,529  | 160               | 332                   | 180                 | 21    | –            | 3,222        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 7 SEGMENT INFORMATION (CONTINUED)

| In HK\$ million                                                                                                                                                        | HKT    | Media<br>Business | Solutions<br>Business | 2015<br>Other<br>Businesses | PCPD  | Eliminations | Consolidated |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------|-----------------------|-----------------------------|-------|--------------|--------------|
| <b>REVENUE</b>                                                                                                                                                         |        |                   |                       |                             |       |              |              |
| External revenue                                                                                                                                                       | 34,364 | 2,163             | 2,569                 | 55                          | 163   | –            | 39,314       |
| Inter-segment revenue                                                                                                                                                  | 365    | 1,207             | 1,025                 | 4                           | 2     | (2,603)      | –            |
| Total revenue                                                                                                                                                          | 34,729 | 3,370             | 3,594                 | 59                          | 165   | (2,603)      | 39,314       |
| <b>RESULTS</b>                                                                                                                                                         |        |                   |                       |                             |       |              |              |
| EBITDA                                                                                                                                                                 | 12,100 | 393               | 688                   | (710)                       | (261) | (332)        | 11,878       |
| <b>OTHER INFORMATION</b>                                                                                                                                               |        |                   |                       |                             |       |              |              |
| Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations | 3,054  | 234               | 117                   | 83                          | 46    | –            | 3,534        |

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

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

## 7 SEGMENT INFORMATION (CONTINUED)

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

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

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$44,027 million (2014: HK\$42,685 million), and the total of these non-current assets located in other countries is HK\$8,599 million (2014: HK\$7,149 million).

## 8 OTHER GAINS, NET

| In HK\$ million                                                                                           | 2014  | 2015 |
|-----------------------------------------------------------------------------------------------------------|-------|------|
| Gain on disposal of subsidiaries ( <i>notes 35(c) &amp; 42</i> )                                          | 2,112 | –    |
| Gain on disposal of an associate                                                                          | –     | 75   |
| Gain on remeasuring an available-for-sale investment upon a step acquisition ( <i>note 41(a)(i)(iv)</i> ) | –     | 29   |
| Fair value gains/(losses) on investment properties                                                        | 656   | (4)  |
| Net gains on cash flow hedging instruments transferred from equity                                        | 2     | 56   |
| Net gains on fair value hedging instruments                                                               | 47    | 48   |
| Fair value loss on derivative financial instrument                                                        | –     | (2)  |
| Net gains from return of investment in available-for-sale financial assets                                | 33    | –    |
| Net realized gains on disposal of available-for-sale financial assets                                     | 1     | 32   |
| Provision for impairment of an interest in an associate                                                   | (52)  | (95) |
| Provision for impairment of an interest in a joint venture                                                | –     | (5)  |
| Provision for impairment of available-for-sale financial assets                                           | (12)  | (2)  |
| Provision for impairment of property held for development                                                 | (84)  | –    |
| Others                                                                                                    | 14    | 3    |
|                                                                                                           | 2,717 | 135  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 9 PROFIT BEFORE INCOME TAX

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

#### a. Staff costs

| In HK\$ million                                                                                    | 2014  | 2015  |
|----------------------------------------------------------------------------------------------------|-------|-------|
| Retirement costs for directors                                                                     | 2     | 3     |
| Retirement costs for other staff under defined contribution and defined benefit retirement schemes | 221   | 361   |
|                                                                                                    | 223   | 364   |
| Share-based compensation expenses                                                                  | 96    | 87    |
| Salaries, bonuses and other benefits                                                               | 2,794 | 2,943 |
|                                                                                                    | 3,113 | 3,394 |

#### b. Other items

| In HK\$ million                                                              | 2014   | 2015   |
|------------------------------------------------------------------------------|--------|--------|
| Crediting:                                                                   |        |        |
| Gross rental income                                                          | 194    | 59     |
| Less: Outgoings                                                              | (29)   | (6)    |
| Exchange gains, net                                                          | 7      | –      |
| Less: Cash flow hedges: transferred from equity                              | (3)    | –      |
| Less: Fair value hedges: transferred to finance costs                        | (4)    | –      |
| Charging:                                                                    |        |        |
| Impairment loss for doubtful debts                                           | 187    | 312    |
| Provision for inventory obsolescence                                         | 10     | 10     |
| Depreciation of property, plant and equipment                                | 3,408  | 2,141  |
| Amortization of land lease premium – interests in leasehold land             | 22     | 22     |
| Amortization of intangible assets                                            | 2,873  | 3,897  |
| Cost of inventories sold                                                     | 3,187  | 6,359  |
| Cost of sales, excluding inventories sold                                    | 11,964 | 12,606 |
| Loss on disposal of property, plant and equipment and intangible assets, net | 2      | 3      |
| Exchange losses, net                                                         | –      | 15     |
| Less: Cash flow hedges: transferred from equity                              | –      | (12)   |
| Less: Fair value hedges: transferred to finance costs                        | –      | 3      |
| Remuneration to the Company's auditor                                        |        |        |
| – audit and audit-related services                                           | 47     | 33     |
| – non-audit services                                                         | 3      | 4      |
| Remuneration to the other auditors                                           |        |        |
| – audit and audit-related services                                           | 5      | 5      |
| – non-audit services                                                         | 1      | 6      |
| Operating lease rental                                                       | 1,603  | 1,760  |

## 10 FINANCE COSTS

| In HK\$ million                                                                                   | 2014  | 2015         |
|---------------------------------------------------------------------------------------------------|-------|--------------|
| Interest expense                                                                                  | 1,333 | <b>1,456</b> |
| Notional accretion on carrier licence fee liabilities                                             | 116   | <b>119</b>   |
| Other borrowing costs                                                                             | 39    | <b>26</b>    |
| Cash flow hedges: transferred from equity                                                         | 1     | <b>1</b>     |
| Fair value hedges: changes in fair value ( <i>note a</i> )                                        | (2)   | <b>(4)</b>   |
| Fair value hedges: exchange difference transferred from exchange losses/(gains), net              | 4     | <b>(3)</b>   |
| Adjustment of borrowings attributable to foreign currency risk                                    | (4)   | <b>3</b>     |
| Impact of re-designation of fair value hedges                                                     | –     | <b>16</b>    |
| Cash flow hedges: changes in fair value                                                           | –     | <b>38</b>    |
|                                                                                                   | 1,487 | <b>1,652</b> |
| Interest capitalized in property, plant and equipment and investment properties ( <i>note b</i> ) | (69)  | <b>(18)</b>  |
|                                                                                                   | 1,418 | <b>1,634</b> |

**a.** Fair value hedges: changes in fair value represent fair value gains on derivative financial instruments on fair value hedges of HK\$28 million (2014: gains of HK\$464 million) and fair value adjustment of borrowings attributable to interest rate risk of HK\$24 million (2014: HK\$462 million).

**b.** The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 2.56% to 3.95% (2014: 3.63% to 3.77%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

#### a. Directors' emoluments – cash and cash equivalents paid/payable

In HK\$ million

2014<sup>16</sup>

|                                            | Directors' fees             |      | Salaries                    |      | Allowances                  |      | Benefits in kind <sup>1</sup> |      | Bonuses                     |                   | Retirement scheme contributions |      | Share-based compensation <sup>2</sup> |      | Total                       |       |
|--------------------------------------------|-----------------------------|------|-----------------------------|------|-----------------------------|------|-------------------------------|------|-----------------------------|-------------------|---------------------------------|------|---------------------------------------|------|-----------------------------|-------|
|                                            | PCCW<br>(excluding<br>PCPD) | PCPD | PCCW<br>(excluding<br>PCPD) | PCPD | PCCW<br>(excluding<br>PCPD) | PCPD | PCCW<br>(excluding<br>PCPD)   | PCPD | PCCW<br>(excluding<br>PCPD) | PCPD              | PCCW<br>(excluding<br>PCPD)     | PCPD | PCCW<br>(excluding<br>PCPD)           | PCPD | PCCW<br>(excluding<br>PCPD) | PCPD  |
| <b>Executive directors</b>                 |                             |      |                             |      |                             |      |                               |      |                             |                   |                                 |      |                                       |      |                             |       |
| Li Tzar Kai, Richard                       | -                           | -    | -                           | -    | -                           | -    | 0.04                          | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.04                        | -     |
| Srinivas Bangalore Gangaiiah <sup>3</sup>  | -                           | -    | 4.13                        | -    | 0.78                        | -    | 0.04                          | -    | 1.52 <sup>4</sup>           | -                 | 0.50                            | -    | -                                     | -    | 6.97                        | -     |
| Chan Ching Cheong, George <sup>5</sup>     | -                           | -    | 0.92                        | -    | -                           | -    | 0.04                          | -    | -                           | -                 | 0.01                            | -    | 7.22                                  | -    | 8.19                        | -     |
| Hui Hon Hing, Susanna                      | -                           | -    | 7.26                        | -    | 3.62                        | -    | 0.02                          | -    | 3.45 <sup>6</sup>           | -                 | 0.87                            | -    | 5.38                                  | -    | 20.60 <sup>7</sup>          | -     |
| Lee Chi Hong, Robert                       | -                           | -    | -                           | 6.42 | -                           | 2.75 | -                             | 0.07 | -                           | 4.50 <sup>6</sup> | -                               | 0.96 | -                                     | -    | -                           | 14.70 |
| <b>Non-executive directors</b>             |                             |      |                             |      |                             |      |                               |      |                             |                   |                                 |      |                                       |      |                             |       |
| Sir David Ford                             | -                           | -    | 1.18                        | -    | 0.15                        | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 1.33                        | -     |
| Lu Yimin                                   | 0.44 <sup>8</sup>           | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.44                        | -     |
| Li Fushen                                  | 0.44 <sup>9</sup>           | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.44                        | -     |
| Zhang Junan <sup>10</sup>                  | 0.09 <sup>11</sup>          | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.09                        | -     |
| Li Gang <sup>12</sup>                      | 0.13 <sup>13</sup>          | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.13                        | -     |
| Tse Sze Wing, Edmund                       | 0.22                        | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.22                        | -     |
| Wei Zhe, David                             | 0.22                        | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.22                        | -     |
| <b>Independent non-executive directors</b> |                             |      |                             |      |                             |      |                               |      |                             |                   |                                 |      |                                       |      |                             |       |
| Dr The Hon Sir David Li Kwok Po            | 0.22                        | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.22                        | -     |
| Aman Mehta                                 | 0.76 <sup>14</sup>          | -    | -                           | -    | 0.53                        | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 1.29                        | -     |
| Frances Waikwun Wong                       | 0.22                        | -    | -                           | -    | -                           | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.22                        | -     |
| Bryce Wayne Lee                            | 0.22                        | -    | -                           | -    | 0.26                        | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.48                        | -     |
| Lars Eric Nils Rodert                      | 0.22                        | -    | -                           | -    | 0.40                        | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.62                        | -     |
| David Christopher Chance                   | 0.33 <sup>15</sup>          | -    | -                           | -    | 0.53                        | -    | -                             | -    | -                           | -                 | -                               | -    | -                                     | -    | 0.86                        | -     |
|                                            | 3.51                        | -    | 13.49                       | 6.42 | 6.27                        | 2.75 | 0.14                          | 0.07 | 4.97                        | 4.50              | 1.38                            | 0.96 | 12.60                                 | -    | 42.36                       | 14.70 |

#### Notes:

- Benefits in kind include medical insurance premium and club membership fees, where applicable.
- Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2014 for respective directors under the share award schemes.
- Appointed as an executive director with effect from July 14, 2014.
- Sign-on bonus paid in July 2014.
- Retired as an executive director with effect from the end of July 13, 2014.
- Bonus amounts shown above represent the portion of 2013 bonuses that were paid in 2014. It was determined by reference to the Group and the individual performance during the year ended December 31, 2013.
- Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer of both entities.
- Fees receivable as a non-executive director of both the Company and HKT in 2014 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fees receivable as a non-executive director of both the Company and HKT in 2014 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Appointed as a non-executive director with effect from August 6, 2014.
- Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Resigned as a non-executive director with effect from August 6, 2014.
- Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Includes HK\$109,200 fee as Chairman of Nomination Committee, HK\$109,200 fee as Chairman of Audit Committee and HK\$109,200 fee as Chairman of Remuneration Committee of the Company as well as fees of HK\$141,511 and HK\$70,756 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively with effect from May 8, 2014.
- Includes HK\$109,200 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.
- Certain comparative information of directors' emoluments for the year ended December 31, 2014 previously disclosed in accordance with the predecessor Companies Ordinance (Cap. 32) have been restated in order to comply with the new scope and requirements of the Hong Kong Companies Ordinance (Cap. 622).

## 11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

### a. Directors' emoluments – cash and cash equivalents paid/payable (continued)

In HK\$ million

|                                            | In HK\$, million      |      |                       |      |                       |      |                               |      |                       |                   |                                 |      |                                       |      |                       |       |
|--------------------------------------------|-----------------------|------|-----------------------|------|-----------------------|------|-------------------------------|------|-----------------------|-------------------|---------------------------------|------|---------------------------------------|------|-----------------------|-------|
|                                            | 2015                  |      |                       |      |                       |      |                               |      |                       |                   |                                 |      |                                       |      |                       |       |
|                                            | Directors' fees       |      | Salaries              |      | Allowances            |      | Benefits in kind <sup>1</sup> |      | Bonuses               |                   | Retirement scheme contributions |      | Share-based compensation <sup>2</sup> |      | Total                 |       |
|                                            | PCCW (excluding PCPD) | PCPD | PCCW (excluding PCPD) | PCPD | PCCW (excluding PCPD) | PCPD | PCCW (excluding PCPD)         | PCPD | PCCW (excluding PCPD) | PCPD              | PCCW (excluding PCPD)           | PCPD | PCCW (excluding PCPD)                 | PCPD | PCCW (excluding PCPD) | PCPD  |
| <b>Executive directors</b>                 |                       |      |                       |      |                       |      |                               |      |                       |                   |                                 |      |                                       |      |                       |       |
| Li Tzar Kai, Richard                       | -                     | -    | -                     | -    | -                     | -    | 0.04                          | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.04                  | -     |
| Srinivas Bangalore Gangaiah                | -                     | -    | 10.28                 | -    | 1.60                  | -    | 0.10                          | -    | 1.10 <sup>3</sup>     | -                 | 1.07                            | -    | -                                     | -    | 14.15                 | -     |
| Hui Hon Hing, Susanna                      | -                     | -    | 7.38                  | -    | 3.68                  | -    | 0.02                          | -    | 7.19 <sup>3</sup>     | -                 | 0.89                            | -    | 13.07                                 | -    | 32.23 <sup>4</sup>    | -     |
| Lee Chi Hong, Robert                       | -                     | -    | -                     | 6.87 | -                     | 2.95 | -                             | 0.09 | -                     | 5.56 <sup>3</sup> | -                               | 1.03 | -                                     | -    | -                     | 16.50 |
| <b>Non-executive directors</b>             |                       |      |                       |      |                       |      |                               |      |                       |                   |                                 |      |                                       |      |                       |       |
| Sir David Ford                             | -                     | -    | 1.09                  | -    | 0.14                  | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 1.23                  | -     |
| Lu Yimin                                   | 0.46 <sup>5</sup>     | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.46                  | -     |
| Li Fushen                                  | 0.46 <sup>6</sup>     | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.46                  | -     |
| Zhang Junan                                | 0.23 <sup>7</sup>     | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.23                  | -     |
| Tse Sze Wing, Edmund                       | 0.23                  | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.23                  | -     |
| Wei Zhe, David                             | 0.23                  | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.23                  | -     |
| <b>Independent non-executive directors</b> |                       |      |                       |      |                       |      |                               |      |                       |                   |                                 |      |                                       |      |                       |       |
| Dr The Hon Sir David Li Kwok Po            | 0.23                  | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.23                  | -     |
| Aman Mehta                                 | 0.92 <sup>8</sup>     | -    | -                     | -    | 0.53                  | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 1.45                  | -     |
| Frances Waikwun Wong                       | 0.40 <sup>9</sup>     | -    | -                     | -    | -                     | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.40                  | -     |
| Bryce Wayne Lee                            | 0.23                  | -    | -                     | -    | 0.40                  | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.63                  | -     |
| Lars Eric Nils Rodert                      | 0.23                  | -    | -                     | -    | 0.53                  | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.76                  | -     |
| David Christopher Chance                   | 0.35 <sup>10</sup>    | -    | -                     | -    | 0.53                  | -    | -                             | -    | -                     | -                 | -                               | -    | -                                     | -    | 0.88                  | -     |
|                                            | 3.97                  | -    | 18.75                 | 6.87 | 7.41                  | 2.95 | 0.16                          | 0.09 | 8.29                  | 5.56              | 1.96                            | 1.03 | 13.07                                 | -    | 53.61                 | 16.50 |

#### Notes:

- Benefits in kind include medical insurance premium and club membership fees, where applicable.
- Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2015 for respective directors under the share award schemes.
- Bonus amounts shown above represent the portion of 2014 bonuses that were paid in 2015. It was determined by reference to the Group and the individual performance during the year ended December 31, 2014.
- Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer of both entities.
- Fees receivable as a non-executive director of both the Company and HKT in 2015 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fees receivable as a non-executive director of both the Company and HKT in 2015 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2015 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Includes HK\$115,000 fee as Chairman of Nomination Committee, HK\$115,000 fee as Chairman of Audit Committee and HK\$115,000 fee as Chairman of Remuneration Committee of the Company as well as fees of HK\$230,000 and HK\$115,000 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.
- Includes fees of HK\$149,658 and HK\$74,829 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively with effect from May 7, 2015.
- Includes HK\$115,000 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.
- The share-based compensation vested to Mr Chan Ching Cheong, George, a past executive director who retired with effect from the end of July 13, 2014, during the year ended December 31, 2015 under the Company's share award scheme in respect of his services as a past director of the Company and its subsidiaries is HK\$10.14 million (2014: HK\$7.22 million).

**11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)**

**b. Directors' other services**

No other emoluments were paid to or receivable by any director in respect of directors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2015 (2014: nil).

**c. Directors' retirement benefits**

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2015 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2014: nil). No other retirement benefits were paid to or receivable by any director in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2015 (2014: nil).

**d. Directors' termination benefits**

No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services have been paid to or were receivable by the directors during the year ended December 31, 2015 (2014: nil).

**e. Consideration provided to third parties for making available directors' services**

No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2015 (2014: nil).

**f. Information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertakings of the Company, where applicable, in favour of directors**

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected parties during the year ended December 31, 2015 (2014: nil).

**g. Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year ended December 31, 2015 (2014: nil).

## 11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

### h. Individuals with highest emoluments

- i. Of the five individuals with the highest emoluments, three (2014: two) are directors of the Company whose emoluments are disclosed in note 11(a). The emoluments in respect of the two (2014: three) non-director individuals were as follows:

| In HK\$ million                                                     | 2014  | 2015         |
|---------------------------------------------------------------------|-------|--------------|
| Salaries, share-based compensation, allowances and benefits in kind | 45.52 | <b>41.13</b> |
| Bonuses                                                             | 21.99 | <b>25.58</b> |
| Retirement scheme contributions                                     | 2.73  | <b>1.90</b>  |
|                                                                     | 70.24 | <b>68.61</b> |

- ii. The emoluments of the two (2014: three) non-director individuals were within the following emolument ranges:

|                                 | Number of individuals |          |
|---------------------------------|-----------------------|----------|
|                                 | 2014                  | 2015     |
| HK\$12,500,001 – HK\$13,000,000 | 1                     | –        |
| HK\$15,500,001 – HK\$16,000,000 | 1                     | –        |
| HK\$16,000,001 – HK\$16,500,000 | –                     | <b>1</b> |
| HK\$41,500,001 – HK\$42,000,000 | 1                     | –        |
| HK\$52,000,001 – HK\$52,500,000 | –                     | <b>1</b> |
|                                 | 3                     | <b>2</b> |

## 12 INCOME TAX

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

| In HK\$ million                                    | 2014  | 2015         |
|----------------------------------------------------|-------|--------------|
| Hong Kong profits tax                              |       |              |
| – provision for current year                       | 381   | <b>483</b>   |
| – (over)/under provision in respect of prior years | (441) | <b>8</b>     |
| Overseas tax                                       |       |              |
| – provision for current year                       | 737   | <b>75</b>    |
| – under/(over) provision in respect of prior years | 5     | <b>(199)</b> |
| Movement of deferred income tax (note 33(a))       | 121   | <b>80</b>    |
|                                                    | 803   | <b>447</b>   |

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 12 INCOME TAX (CONTINUED)

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

| In HK\$ million                                                             | 2014  | 2015  |
|-----------------------------------------------------------------------------|-------|-------|
| Profit before income tax                                                    | 5,474 | 4,440 |
| Notional tax on profit before income tax, calculated at applicable tax rate | 903   | 733   |
| Effect of different tax rates of subsidiaries operating overseas            | (265) | 6     |
| Income not subject to tax                                                   | (34)  | (50)  |
| Expenses not deductible for tax purposes                                    | 190   | 201   |
| Tax losses not recognized                                                   | 127   | 129   |
| Over provision in prior years, net                                          | (436) | (191) |
| Utilization of previously unrecognized tax losses                           | (309) | (123) |
| Recognition of previously unrecognized tax losses                           | (16)  | (252) |
| Capital gain tax on disposal of subsidiaries                                | 651   | –     |
| Net income of associates and joint ventures not subject to tax              | (8)   | (6)   |
| Income tax expense                                                          | 803   | 447   |

The change in the effective tax rate for the year ended December 31, 2015 comparing with 2014 was mainly due to prior year's provision of overseas tax from the disposal of an overseas subsidiary and increase in the recognition of deferred income tax assets resulting from certain loss-making companies turning profitable.

### 13 DIVIDENDS

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

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

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

c. For details of shares issued in lieu of cash dividends, please refer to note 29(a).

## 14 EARNINGS PER SHARE

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

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

## 15 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million

|                                                 | 2014               |                    |                    |                           |                             |        |
|-------------------------------------------------|--------------------|--------------------|--------------------|---------------------------|-----------------------------|--------|
|                                                 | Land and buildings | Exchange equipment | Transmission plant | Other plant and equipment | Projects under construction | Total  |
| <b>Cost</b>                                     |                    |                    |                    |                           |                             |        |
| Beginning of year                               | 1,302              | 12,713             | 16,482             | 12,155                    | 1,555                       | 44,207 |
| Additions                                       | 6                  | 723                | 752                | 900                       | 841                         | 3,222  |
| Additions upon business combinations            | 392                | 694                | 561                | 225                       | 121                         | 1,993  |
| Disposal of interests in subsidiaries (note 42) | (50)               | –                  | –                  | (139)                     | –                           | (189)  |
| Transfers                                       | –                  | 440                | 484                | 259                       | (1,183)                     | –      |
| Disposals                                       | –                  | (402)              | (21)               | (116)                     | –                           | (539)  |
| Exchange differences                            | (14)               | (80)               | (88)               | (12)                      | –                           | (194)  |
| End of year                                     | 1,636              | 14,088             | 18,170             | 13,272                    | 1,334                       | 48,500 |
| <b>Accumulated depreciation and impairment</b>  |                    |                    |                    |                           |                             |        |
| Beginning of year                               | 449                | 9,394              | 9,432              | 9,232                     | 7                           | 28,514 |
| Charge for the year                             | 54                 | 1,330              | 1,225              | 799                       | –                           | 3,408  |
| Disposal of interests in subsidiaries (note 42) | (22)               | –                  | –                  | (100)                     | –                           | (122)  |
| Transfers                                       | –                  | –                  | –                  | 7                         | (7)                         | –      |
| Disposals                                       | –                  | (402)              | (16)               | (112)                     | –                           | (530)  |
| Exchange differences                            | (2)                | (54)               | (39)               | (12)                      | –                           | (107)  |
| End of year                                     | 479                | 10,268             | 10,602             | 9,814                     | –                           | 31,163 |
| <b>Net book value</b>                           |                    |                    |                    |                           |                             |        |
| End of year                                     | 1,157              | 3,820              | 7,568              | 3,458                     | 1,334                       | 17,337 |
| Beginning of year                               | 853                | 3,319              | 7,050              | 2,923                     | 1,548                       | 15,693 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million

|                                                    | 2015                  |                       |                       |                                 |                                   |        |
|----------------------------------------------------|-----------------------|-----------------------|-----------------------|---------------------------------|-----------------------------------|--------|
|                                                    | Land and<br>buildings | Exchange<br>equipment | Transmission<br>plant | Other<br>plant and<br>equipment | Projects<br>under<br>construction | Total  |
| <b>Cost</b>                                        |                       |                       |                       |                                 |                                   |        |
| Beginning of year                                  | 1,636                 | 14,088                | 18,170                | 13,272                          | 1,334                             | 48,500 |
| Additions                                          | 34                    | 481                   | 1,542                 | 258                             | 1,219                             | 3,534  |
| Additions upon business combinations               | –                     | 55                    | –                     | 15                              | –                                 | 70     |
| Transfers                                          | –                     | 241                   | 458                   | 119                             | (818)                             | –      |
| Transfer from properties under<br>development      | 5                     | –                     | –                     | –                               | 2                                 | 7      |
| Disposals                                          | –                     | (411)                 | (249)                 | (95)                            | –                                 | (755)  |
| Exchange differences                               | –                     | (55)                  | (129)                 | (20)                            | –                                 | (204)  |
| End of year                                        | 1,675                 | 14,399                | 19,792                | 13,549                          | 1,737                             | 51,152 |
| <b>Accumulated depreciation and<br/>impairment</b> |                       |                       |                       |                                 |                                   |        |
| Beginning of year                                  | 479                   | 10,268                | 10,602                | 9,814                           | –                                 | 31,163 |
| Charge for the year                                | 52                    | 617                   | 748                   | 724                             | –                                 | 2,141  |
| Disposals                                          | –                     | (411)                 | (249)                 | (94)                            | –                                 | (754)  |
| Exchange differences                               | –                     | (33)                  | (56)                  | (22)                            | –                                 | (111)  |
| End of year                                        | 531                   | 10,441                | 11,045                | 10,422                          | –                                 | 32,439 |
| <b>Net book value</b>                              |                       |                       |                       |                                 |                                   |        |
| End of year                                        | 1,144                 | 3,958                 | 8,747                 | 3,127                           | 1,737                             | 18,713 |
| Beginning of year                                  | 1,157                 | 3,820                 | 7,568                 | 3,458                           | 1,334                             | 17,337 |

As at December 31, 2015, certain property, plant and equipment with an aggregate carrying value of approximately HK\$2 million (2014: nil) were pledged as security for certain bank borrowings of the Group. Please refer to note 40 for details of the Group's bank loan facilities.

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

## 16 INVESTMENT PROPERTIES

| In HK\$ million                                          | 2014    | 2015         |
|----------------------------------------------------------|---------|--------------|
| Beginning of year                                        | 8,436   | <b>1,878</b> |
| Additions                                                | –       | <b>340</b>   |
| Disposal of interests in subsidiaries ( <i>note 42</i> ) | (7,182) | –            |
| Capitalized subsequent expenditures, net                 | 84      | –            |
| Exchange differences                                     | (116)   | <b>(130)</b> |
| Fair value gains/(losses)                                | 656     | <b>(4)</b>   |
| End of year                                              | 1,878   | <b>2,084</b> |

The unrealized losses of the investment properties for the year ended December 31, 2015 of HK\$4 million (2014: gains of HK\$656 million) was recognized in the consolidated income statement as “Fair value gains/(losses) on investment properties”.

As at December 31, 2015, a sum of approximately HK\$293 million (2014: HK\$239 million) advanced to the contractors in relation to the construction of the investment property is included in “Prepayment, deposits and other current assets” in the consolidated statement of financial position.

As at December 31, 2015, value added tax receivables of approximately HK\$168 million (2014: HK\$152 million) in relation to the land acquisition and construction of the investment property is included in “Other non-current assets” in the consolidated statement of financial position.

### a. Estimation of fair values and valuation techniques

The tables below analyze non-financial assets carried at fair value as at December 31, 2014 and 2015. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset that are not based on observable market data (level 3).

| In HK\$ million                   | 2014    |         |         |       |
|-----------------------------------|---------|---------|---------|-------|
|                                   | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements |         |         |         |       |
| Investment properties             |         |         |         |       |
| Indonesia                         | –       | –       | 1,848   | 1,848 |
| Hong Kong                         | –       | 30      | –       | 30    |
|                                   | –       | 30      | 1,848   | 1,878 |

| In HK\$ million                   | 2015    |         |         |       |
|-----------------------------------|---------|---------|---------|-------|
|                                   | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements |         |         |         |       |
| Investment properties             |         |         |         |       |
| Indonesia                         | –       | –       | 2,058   | 2,058 |
| Hong Kong                         | –       | 26      | –       | 26    |
|                                   | –       | 26      | 2,058   | 2,084 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 16 INVESTMENT PROPERTIES (CONTINUED)

#### a. Estimation of fair values and valuation techniques (continued)

The fair values of investment properties in Hong Kong included in level 2 have been estimated using current prices in an active market for similar locations and type.

During the year ended December 31, 2015, there were no transfers between different levels.

Information about level 3 fair value measurements

| Investment properties | Valuation technique     | 2014                        |                                    |
|-----------------------|-------------------------|-----------------------------|------------------------------------|
|                       |                         | Unobservable inputs         | Rate                               |
| Indonesia             | Residual value approach | Price per net saleable area | US\$5,950/sq.m. to US\$6,690/sq.m. |
|                       |                         | Construction cost           | US\$1,850/sq.m. to US\$2,450/sq.m. |
|                       |                         |                             |                                    |

Information about level 3 fair value measurements

| Investment properties | Valuation technique     | 2015                        |                                    |
|-----------------------|-------------------------|-----------------------------|------------------------------------|
|                       |                         | Unobservable inputs         | Rate                               |
| Indonesia             | Residual value approach | Price per net saleable area | US\$5,730/sq.m. to US\$6,280/sq.m. |
|                       |                         | Construction cost           | US\$2,000/sq.m. to US\$2,450/sq.m. |
|                       |                         |                             |                                    |

On July 24, 2013, the Group completed the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The property located in Indonesia is held by the Group for investment which the construction is in progress. Management has performed a valuation of the fair value of the property determined by using residual value approach with reference to the sale evidence as available in the market and allowing for the outstanding development costs including mainly construction cost, sales and marketing cost and finance cost. Significant changes in the price and the construction cost would result in a significant change in the fair value of the investment property. In addition, the exchange rate movement between Indonesian rupiah and the United States dollar could also affect the price and construction costs.

b. The Group leases out properties under operating leases. The majority of the leases typically run for periods of 2 to 15 years. None of the leases include material contingent rentals.

## 16 INVESTMENT PROPERTIES (CONTINUED)

c. As at December 31, 2015, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases were receivables as follows:

| In HK\$ million                 | 2014 | 2015 |
|---------------------------------|------|------|
| Within 1 year                   | 44   | 37   |
| After 1 year but within 5 years | 66   | 31   |
| After 5 years                   | 16   | 2    |
|                                 | 126  | 70   |

d. Investment properties with a carrying value of approximately HK\$2,058 million (2014: HK\$1,848 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2015. Please refer to note 40 for details of the Group's bank loan facilities.

## 17 INTERESTS IN LEASEHOLD LAND

| In HK\$ million                                 | 2014 | 2015 |
|-------------------------------------------------|------|------|
| <b>Cost</b>                                     |      |      |
| Beginning of year                               | 835  | 820  |
| Disposal of interests in subsidiaries (note 42) | (15) | –    |
| End of year                                     | 820  | 820  |
| <b>Accumulated amortization</b>                 |      |      |
| Beginning of year                               | 339  | 356  |
| Charge for the year                             | 22   | 22   |
| Disposal of interests in subsidiaries (note 42) | (5)  | –    |
| End of year                                     | 356  | 378  |
| <b>Net book value</b>                           |      |      |
| End of year                                     | 464  | 442  |
| Beginning of year                               | 496  | 464  |

As at December 31, 2015, there was no leasehold land included in properties under development (2014: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 18 PROPERTIES HELD FOR/UNDER DEVELOPMENT

| In HK\$ million      | Properties<br>held for development<br>(note a) | 2014<br>Properties<br>under development<br>(note b) | Total |
|----------------------|------------------------------------------------|-----------------------------------------------------|-------|
| Beginning of year    | 645                                            | 379                                                 | 1,024 |
| Additions            | 6                                              | 2                                                   | 8     |
| Impairment           | (84)                                           | –                                                   | (84)  |
| Exchange differences | (1)                                            | (52)                                                | (53)  |
| End of year          | 566                                            | 329                                                 | 895   |

  

| In HK\$ million                           | Properties<br>held for development<br>(note a) | 2015<br>Properties<br>under development<br>(note b) | Total |
|-------------------------------------------|------------------------------------------------|-----------------------------------------------------|-------|
| Beginning of year                         | 566                                            | 329                                                 | 895   |
| Additions                                 | 8                                              | 4                                                   | 12    |
| Transfer to property, plant and equipment | –                                              | (7)                                                 | (7)   |
| Exchange differences                      | (49)                                           | –                                                   | (49)  |
| End of year                               | 525                                            | 326                                                 | 851   |

**a.** Properties held for development represents freehold land in Thailand, for which the PCPD Group intends for future development projects. The land in Thailand is held by the PCPD Group through a long-term operating lease agreement with the legal owners, 39% owned entities of PCPD, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements.

PCPD management has performed assessments of the recoverable amount of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development, with reference to the advice of an external valuer. The valuation is based on the direct comparison approach which involves the use of various market comparables, estimates and assumptions. Based on the impairment assessment, no provision for impairment was recognized for the year ended December 31, 2015 (2014: HK\$84 million). Changes in the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

**b.** Properties under development represents freehold land in Japan. Management has performed assessments of the recoverable amount of the development project in Japan included in properties under development as at December 31, 2015. The valuation is based on the discounted cash flow forecast of the development project which involves the use of various estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the recoverable amount of the development project.

During the year ended December 31, 2015, the PCPD Group entered into a management agreement with an international hotel operator for the hotel and branded residences of this development project in Japan. As the hotel is intended to be owned by the PCPD Group with the outsourced hotel management services, the carrying value in relation to the land and capitalized costs attributable to the hotel portion has been reclassified from “Properties under development” to “Property, plant and equipment” following the change in use.

## 19 GOODWILL

| In HK\$ million                      | 2014   | 2015          |
|--------------------------------------|--------|---------------|
| <b>Cost</b>                          |        |               |
| Beginning of year                    | 3,635  | <b>17,241</b> |
| Additions upon business combinations | 13,627 | <b>1,131</b>  |
| Exchange differences                 | (21)   | <b>(23)</b>   |
| End of year                          | 17,241 | <b>18,349</b> |
| <b>Accumulated impairment</b>        |        |               |
| Beginning and end of year            | 166    | <b>166</b>    |
| <b>Carrying amount</b>               |        |               |
| End of year                          | 17,075 | <b>18,183</b> |
| Beginning of year                    | 3,469  | <b>17,075</b> |

### Impairment tests for CGUs containing goodwill

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

| In HK\$ million    | 2014   | 2015          |
|--------------------|--------|---------------|
| HKT                |        |               |
| Mobile             | 15,554 | <b>15,591</b> |
| Global Business    | 734    | <b>723</b>    |
| Teleservices       | 201    | <b>197</b>    |
| Others             | –      | <b>139</b>    |
|                    | 16,489 | <b>16,650</b> |
| Media Business     | 162    | <b>1,111</b>  |
| Solutions Business | 271    | <b>271</b>    |
| PCPD               | 91     | <b>91</b>     |
| Others             | 62     | <b>60</b>     |
| Total              | 17,075 | <b>18,183</b> |

Goodwill arising from a business combination is allocated to CGU(s) that are expected to benefit from synergies of the combination. The purchase price allocation process for the acquisition of Vuclip Group (as defined in note 41(a)(i)) is ongoing as of the date of these consolidated financial statements and has yet to be finalized. Thus the resulting goodwill has been provisionally allocated to the combined Media Business CGU as the acquisition is expected to benefit the Media Business as a whole.

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 covering a five to ten-year period. Cash flows beyond the projection period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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(Amount expressed in Hong Kong dollars unless otherwise stated)

### 19 GOODWILL (CONTINUED)

#### Impairment tests for CGUs containing goodwill (continued)

The key assumptions used for value-in-use calculations in 2014 and 2015 are as follows:

|                    | Gross margin | 2014<br>Terminal<br>growth<br>rate | Discount<br>rate | Gross<br>margin | 2015<br>Terminal<br>growth<br>rate | Discount<br>rate |
|--------------------|--------------|------------------------------------|------------------|-----------------|------------------------------------|------------------|
| Mobile             | 70%          | 2%                                 | 11%              | <b>66%</b>      | <b>2%</b>                          | <b>11%</b>       |
| Global Business    | 21%          | 3%                                 | 11%              | <b>23%</b>      | <b>3%</b>                          | <b>10%</b>       |
| Teleservices       | 31%          | 2%                                 | 12%              | <b>31%</b>      | <b>2%</b>                          | <b>10%</b>       |
| Media Business     | 50%          | 2%                                 | 14%              | <b>54%</b>      | <b>2%</b>                          | <b>14%</b>       |
| Solutions Business | 26%          | 2%                                 | 11%              | <b>26%</b>      | <b>2%</b>                          | <b>12%</b>       |

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

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

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

### 20 INTANGIBLE ASSETS

In HK\$ million

|                                                 | 2014       |                                                             |                                   |                     |                                  |                  |          |        |         |
|-------------------------------------------------|------------|-------------------------------------------------------------|-----------------------------------|---------------------|----------------------------------|------------------|----------|--------|---------|
|                                                 | Trademarks | Content<br>licence and<br>capitalized<br>programme<br>costs | Wireless<br>broadband<br>licences | Carrier<br>licences | Customer<br>acquisition<br>costs | Customer<br>base | Software | Others | Total   |
| <b>Cost</b>                                     |            |                                                             |                                   |                     |                                  |                  |          |        |         |
| Beginning of year                               | 1,595      | 324                                                         | 436                               | 956                 | 3,225                            | 52               | 686      | 45     | 7,319   |
| Additions                                       | –          | 192                                                         | –                                 | 108                 | 2,558                            | –                | 296      | 4      | 3,158   |
| Additions upon business combinations            | 1,343      | –                                                           | –                                 | 2,332               | –                                | 2,716            | –        | –      | 6,391   |
| Disposal of interests in subsidiaries (note 42) | –          | –                                                           | –                                 | –                   | –                                | –                | –        | (31)   | (31)    |
| Write-off                                       | –          | (33)                                                        | –                                 | –                   | (1,796)                          | –                | –        | –      | (1,829) |
| Exchange differences                            | (9)        | –                                                           | (24)                              | –                   | –                                | (6)              | –        | –      | (39)    |
| End of year                                     | 2,929      | 483                                                         | 412                               | 3,396               | 3,987                            | 2,762            | 982      | 18     | 14,969  |
| <b>Accumulated amortization and impairment</b>  |            |                                                             |                                   |                     |                                  |                  |          |        |         |
| Beginning of year                               | 1,018      | 193                                                         | 220                               | 433                 | 1,797                            | 8                | 68       | 8      | 3,745   |
| Charge for the year                             | 128        | 160                                                         | 27                                | 353                 | 1,827                            | 307              | 71       | –      | 2,873   |
| Write-off                                       | –          | (33)                                                        | –                                 | –                   | (1,796)                          | –                | –        | –      | (1,829) |
| Exchange differences                            | (1)        | –                                                           | (14)                              | –                   | –                                | –                | –        | –      | (15)    |
| End of year                                     | 1,145      | 320                                                         | 233                               | 786                 | 1,828                            | 315              | 139      | 8      | 4,774   |
| <b>Net book value</b>                           |            |                                                             |                                   |                     |                                  |                  |          |        |         |
| End of year                                     | 1,784      | 163                                                         | 179                               | 2,610               | 2,159                            | 2,447            | 843      | 10     | 10,195  |
| Beginning of year                               | 577        | 131                                                         | 216                               | 523                 | 1,428                            | 44               | 618      | 37     | 3,574   |

## 20 INTANGIBLE ASSETS (CONTINUED)

In HK\$ million

|                                                | 2015       |                                                 |                             |                  |                            |               |          |        |
|------------------------------------------------|------------|-------------------------------------------------|-----------------------------|------------------|----------------------------|---------------|----------|--------|
|                                                | Trademarks | Content licence and capitalized programme costs | Wireless broadband licences | Carrier licences | Customer acquisition costs | Customer base | Software | Others |
| <b>Cost</b>                                    |            |                                                 |                             |                  |                            |               |          |        |
| Beginning of year                              | 2,929      | 483                                             | 412                         | 3,396            | 3,987                      | 2,762         | 982      | 18     |
| Additions                                      | –          | 306                                             | –                           | 117              | 3,014                      | –             | 292      | 20     |
| Additions upon business combinations           | –          | –                                               | –                           | –                | –                          | 346           | 152      | –      |
| Write-off                                      | –          | (73)                                            | –                           | –                | (1,670)                    | –             | –        | –      |
| Exchange differences                           | (3)        | –                                               | (19)                        | –                | (4)                        | (2)           | –        | –      |
| End of year                                    | 2,926      | 716                                             | 393                         | 3,513            | 5,327                      | 3,106         | 1,426    | 38     |
| <b>Accumulated amortization and impairment</b> |            |                                                 |                             |                  |                            |               |          |        |
| Beginning of year                              | 1,145      | 320                                             | 233                         | 786              | 1,828                      | 315           | 139      | 8      |
| Charge for the year                            | 146        | 166                                             | 25                          | 465              | 2,470                      | 479           | 146      | –      |
| Write-off                                      | –          | (65)                                            | –                           | –                | (1,670)                    | –             | –        | –      |
| Exchange differences                           | –          | –                                               | (12)                        | –                | (3)                        | (2)           | –        | –      |
| End of year                                    | 1,291      | 421                                             | 246                         | 1,251            | 2,625                      | 792           | 285      | 8      |
| <b>Net book value</b>                          |            |                                                 |                             |                  |                            |               |          |        |
| End of year                                    | 1,635      | 295                                             | 147                         | 2,262            | 2,702                      | 2,314         | 1,141    | 30     |
| Beginning of year                              | 1,784      | 163                                             | 179                         | 2,610            | 2,159                      | 2,447         | 843      | 10     |

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

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(Amount expressed in Hong Kong dollars unless otherwise stated)

### 21 SUBSIDIARIES

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows:

| Company name                                                                                                           | Place of incorporation/<br>operations     | Principal activities                                                                                                                                                                                                                                | Amount of issued capital/registered capital                                                     | Interest held by |                           |       |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------|---------------------------|-------|
|                                                                                                                        |                                           |                                                                                                                                                                                                                                                     |                                                                                                 | the Company      | non-controlling interests |       |
|                                                                                                                        |                                           |                                                                                                                                                                                                                                                     |                                                                                                 | Directly         | Indirectly                |       |
| HKT Limited                                                                                                            | Cayman Islands/<br>Hong Kong              | Investment holding                                                                                                                                                                                                                                  | HK\$3,785,871,167<br>ordinary shares and<br>HK\$3,785,871,167<br>preference shares              | –                | 63.1%                     | 36.9% |
| HKT Group Holdings Limited <sup>3</sup><br>("HKTGH")                                                                   | Cayman Islands                            | Investment holding                                                                                                                                                                                                                                  | US\$636,000,005                                                                                 | –                | 63.1%                     | 36.9% |
| Hong Kong Telecommunications<br>(HKT) Limited <sup>3</sup> ("HKTL")                                                    | Hong Kong                                 | Provision of telecommunications services                                                                                                                                                                                                            | HK\$9,945,156,001                                                                               | –                | 63.1%                     | 36.9% |
| HKT Services Limited <sup>3</sup>                                                                                      | Hong Kong                                 | Provision of management services to group<br>companies                                                                                                                                                                                              | HK\$1                                                                                           | –                | 63.1%                     | 36.9% |
| Esencia Investments Limited                                                                                            | British Virgin Islands                    | Investment holding                                                                                                                                                                                                                                  | US\$1                                                                                           | –                | 100%                      | –     |
| Great Epoch Holdings Limited                                                                                           | British Virgin Islands                    | Investment holding                                                                                                                                                                                                                                  | US\$1                                                                                           | –                | 100%                      | –     |
| PCCW-HKT Technical Services<br>Limited                                                                                 | Hong Kong                                 | Provision of technical support services,<br>electronics and communications engineering,<br>products and solutions                                                                                                                                   | HK\$700,002                                                                                     | –                | 100%                      | –     |
| CSL Mobile Limited <sup>3</sup>                                                                                        | Hong Kong                                 | Provision of mobile services to its customers,<br>which is procured from HKTL, and the sale of<br>mobile phones and accessories                                                                                                                     | HK\$7,900,280,100<br>ordinary shares and<br>HK\$1,254,000,000<br>non-voting deferred<br>shares  | –                | 63.1%                     | 36.9% |
| PCCW Media Limited                                                                                                     | Hong Kong                                 | Provision of pay television programme services,<br>interactive multimedia services, the sale of<br>advertising in various telephone directories, the<br>publishing of those directories in Hong Kong and<br>the sale of advertising on the Internet | HK\$5,507,310,269<br>ordinary shares,<br>HK\$1 "A" Class share<br>and HK\$4 "B" Class<br>shares | –                | 100%                      | –     |
| PC Music Holdings Limited                                                                                              | British Virgin Islands                    | Investment holding                                                                                                                                                                                                                                  | US\$11                                                                                          | –                | 100%                      | –     |
| PCCW Productions Limited                                                                                               | Hong Kong                                 | Production of content for different media                                                                                                                                                                                                           | HK\$2                                                                                           | –                | 100%                      | –     |
| PCCW Teleservices (Hong Kong)<br>Limited <sup>3</sup>                                                                  | Hong Kong                                 | Provision of customer relationship management and<br>customer contact management solutions and<br>services                                                                                                                                          | HK\$350,000,002                                                                                 | –                | 63.1%                     | 36.9% |
| 廣州電盈綜合客戶服務技術發展<br>有限公司 <sup>1,3</sup><br>(PCCW Customer Management<br>Technology and Services<br>(Guangzhou) Limited*) | The People's Republic<br>of China ("PRC") | Customer service and consultancy                                                                                                                                                                                                                    | HK\$93,240,000                                                                                  | –                | 63.1%                     | 36.9% |
| PCCW (Macau), Limitada <sup>2,3</sup>                                                                                  | Macau                                     | Selling customer premises equipment and related<br>solutions, conducting systems integration projects<br>and providing outsourced call center services                                                                                              | MOP2,000,000                                                                                    | –                | 47.3%                     | 52.7% |
| PCCW Teleservices (US), Inc. <sup>3</sup>                                                                              | Nebraska, U.S.                            | Telemarketing and direct marketing services                                                                                                                                                                                                         | US\$1,169                                                                                       | –                | 63.1%                     | 36.9% |

## 21 SUBSIDIARIES (CONTINUED)

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows: (continued)

| Company name                                                           | Place of incorporation/<br>operations          | Principal activities                                                                                                                             | Amount of issued capital/registered capital            | Interest held by |                           |       |
|------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|------------------|---------------------------|-------|
|                                                                        |                                                |                                                                                                                                                  |                                                        | the Company      | non-controlling interests |       |
|                                                                        |                                                |                                                                                                                                                  |                                                        | Directly         | Indirectly                |       |
| PCCW Global B.V. <sup>3</sup>                                          | Netherlands/France                             | Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited | EUR18,000                                              | –                | 63.1%                     | 36.9% |
| PCCW Global (HK) Limited <sup>3</sup>                                  | Hong Kong                                      | Provision of satellite-based and network-based telecommunications services                                                                       | HK\$10                                                 | –                | 63.1%                     | 36.9% |
| PCCW Global Limited <sup>3</sup>                                       | Hong Kong/Dubai Technology and Media Free Zone | Provision of network-based telecommunications services                                                                                           | HK\$167,743,479                                        | –                | 63.1%                     | 36.9% |
| PCCW Global, Inc. <sup>3</sup>                                         | Delaware, U.S.                                 | Supply of broadband internet access solutions and web services                                                                                   | US\$18.01                                              | –                | 63.1%                     | 36.9% |
| HKT Global (Singapore) Pte. Ltd. <sup>3</sup>                          | Singapore/Malaysia                             | Provision of telecommunications solutions related services                                                                                       | S\$60,956,485.64                                       | –                | 63.1%                     | 36.9% |
| Gateway Global Communications Limited <sup>3</sup>                     | United Kingdom                                 | Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies      | GBP1                                                   | –                | 63.1%                     | 36.9% |
| Sun Mobile Limited <sup>2,3</sup>                                      | Hong Kong                                      | Provision of mobile telecommunications services to customers in Hong Kong                                                                        | HK\$41,600,000                                         | –                | 37.8%                     | 62.2% |
| 電訊盈科(北京)有限公司 <sup>1</sup><br>(PCCW (Beijing) Limited*)                 | The PRC                                        | Software development, systems integration, consulting and informatization project                                                                | US\$10,250,000                                         | –                | 100%                      | –     |
| PCCW Solutions Limited                                                 | Hong Kong                                      | Provision of computer services and IP/IT related value-added services to business customers                                                      | HK\$36,294,067.89                                      | –                | 100%                      | –     |
| 電訊盈科信息技術(廣州)有限公司 <sup>1</sup><br>(PCCW Solutions (Guangzhou) Limited*) | The PRC                                        | Systems integration and technology consultancy                                                                                                   | HK\$12,600,000                                         | –                | 100%                      | –     |
| PCCW Business eSolutions Limited                                       | Hong Kong                                      | Provision of IP/IT related value-added services to business customers                                                                            | HK\$2                                                  | –                | 100%                      | –     |
| PCCW Powerbase Data Center Services (HK) Limited                       | Hong Kong                                      | Provision of data center services                                                                                                                | HK\$2                                                  | –                | 100%                      | –     |
| Power Logistics Limited                                                | Hong Kong                                      | Logistics, printing, business process and ICT solutions                                                                                          | HK\$100,000                                            | –                | 100%                      | –     |
| Pacific Century Premium Developments Limited                           | Bermuda/Hong Kong                              | Investment holding                                                                                                                               | HK\$201,334,156.50                                     | –                | 70.8%                     | 29.2% |
| Cyber-Port Limited <sup>4</sup>                                        | Hong Kong                                      | Property development                                                                                                                             | HK\$2                                                  | –                | 70.8%                     | 29.2% |
| Talent Master Investments Limited <sup>4</sup>                         | British Virgin Islands/<br>Hong Kong           | Property development                                                                                                                             | US\$1                                                  | –                | 70.8%                     | 29.2% |
| Nihon Harmony Resorts KK <sup>4</sup>                                  | Japan                                          | Ski operation                                                                                                                                    | JPY405,000,000                                         | –                | 70.8%                     | 29.2% |
| Harmony TMK <sup>4</sup>                                               | Japan                                          | Property development                                                                                                                             | JPY100,000,000                                         | –                | 70.8%                     | 29.2% |
|                                                                        |                                                |                                                                                                                                                  | specified shares and JPY4,450,000,000 preferred shares |                  |                           |       |
| PT Prima Bangun Investama <sup>4</sup>                                 | Indonesia                                      | Property development and management                                                                                                              | US\$26,000,000                                         | –                | 70.8%                     | 29.2% |
| Phang-nga Leisure Limited <sup>2,4</sup>                               | Thailand                                       | Property holding and leasing                                                                                                                     | THB2,000,000                                           | –                | 27.6%                     | 72.4% |
| Phang-nga Paradise Limited <sup>2,4</sup>                              | Thailand                                       | Property holding and leasing                                                                                                                     | THB2,000,000                                           | –                | 27.6%                     | 72.4% |
| UK Broadband Limited                                                   | United Kingdom                                 | Public fixed wireless access licence businesses                                                                                                  | GBP1                                                   | –                | 100%                      | –     |

\* Unofficial company name

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

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### 21 SUBSIDIARIES (CONTINUED)

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows: (continued)

**Notes:**

- 1 Represents a wholly foreign owned enterprise.
- 2 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.
- 3 These companies are subsidiaries of HKT Trust and HKT, Share Stapled Units of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for HKT Trust, HKT and its subsidiaries (collectively the "HKT Group") in accordance with HKFRSs.
- 4 These companies are subsidiaries of PCPD, shares of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for PCPD Group in accordance with HKFRSs. The Group holds approximately 70.8% of the ordinary shares of PCPD and certain non-redeemable bonus convertible notes with conversion rights to acquire a further approximately 21.8% of ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and can be converted at any time provided that the public float requirements could be complied with, PCCW consolidates the results of PCPD on its approximately 92.6% economic interest taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with HKFRSs.

**b. Significant restrictions**

Please refer to note 25(b) for the restricted cash balances that mainly relates to PCPD included within the consolidated financial statements which is subject to the Cyberport Project Agreement.

**c. Summarized financial information on subsidiaries with material non-controlling interests**

Set out below is summarized consolidated financial information for HKT Group and PCPD Group which are subsidiaries that have non-controlling interests that are material to the Group.

Summarized statements of financial position as at December 31, 2014 and 2015 are as follows:

| In HK\$ million                            | HKT Group<br>2014 | 2015            | PCPD Group<br>2014 | 2015         |
|--------------------------------------------|-------------------|-----------------|--------------------|--------------|
| Non-current assets                         | 77,542            | <b>77,570</b>   | 3,129              | <b>3,375</b> |
| Current assets                             | 12,258            | <b>12,347</b>   | 4,368              | <b>2,890</b> |
| Total assets                               | 89,800            | <b>89,917</b>   | 7,497              | <b>6,265</b> |
| Current liabilities                        | (14,415)          | <b>(14,778)</b> | (1,748)            | <b>(777)</b> |
| Non-current liabilities                    | (37,346)          | <b>(37,404)</b> | (187)              | <b>(233)</b> |
| Net assets                                 | 38,039            | <b>37,735</b>   | 5,562              | <b>5,255</b> |
| Non-controlling interests                  | (107)             | <b>(119)</b>    | –                  | <b>–</b>     |
| Net assets after non-controlling interests | 37,932            | <b>37,616</b>   | 5,562              | <b>5,255</b> |

Summarized financial information for the years ended December 31, 2014 and 2015 is as follows:

| In HK\$ million                                                   | HKT Group<br>2014 | 2015          | PCPD Group<br>2014 | 2015         |
|-------------------------------------------------------------------|-------------------|---------------|--------------------|--------------|
| Revenue                                                           | 28,823            | <b>34,729</b> | 315                | <b>165</b>   |
| Profit/(loss) before income tax                                   | 3,300             | <b>4,586</b>  | 2,357              | <b>(268)</b> |
| Income tax                                                        | (242)             | <b>(600)</b>  | (866)              | <b>187</b>   |
| Profit/(loss) for the year                                        | 3,058             | <b>3,986</b>  | 1,491              | <b>(81)</b>  |
| Other comprehensive loss                                          | (381)             | <b>(503)</b>  | (1,440)            | <b>(226)</b> |
| Total comprehensive income/(loss)                                 | 2,677             | <b>3,483</b>  | 51                 | <b>(307)</b> |
| Non-controlling interests                                         | (67)              | <b>(37)</b>   | –                  | <b>–</b>     |
| Total comprehensive income/(loss) after non-controlling interests | 2,610             | <b>3,446</b>  | 51                 | <b>(307)</b> |
| Dividends paid to non-controlling interests                       | 1,248             | <b>1,399</b>  | –                  | <b>–</b>     |

## 21 SUBSIDIARIES (CONTINUED)

### c. Summarized financial information on subsidiaries with material non-controlling interests (continued)

Summarized cash flows for the years ended December 31, 2014 and 2015 are as follows:

| In HK\$ million                                               | HKT Group |                | PCPD Group |                |
|---------------------------------------------------------------|-----------|----------------|------------|----------------|
|                                                               | 2014      | 2015           | 2014       | 2015           |
| <b>Cash flows from operating activities</b>                   |           |                |            |                |
| Cash generated from/(used in) operations                      | 9,944     | <b>11,723</b>  | (174)      | <b>432</b>     |
| Interest received                                             | 20        | <b>11</b>      | 18         | <b>12</b>      |
| Income tax paid, net of tax refund                            | (395)     | <b>(365)</b>   | (27)       | <b>(9)</b>     |
| Net cash generated from/(used in) operating activities        | 9,569     | <b>11,369</b>  | (183)      | <b>435</b>     |
| <b>Net cash (used in)/generated from investing activities</b> | (24,586)  | <b>(7,215)</b> | 6,262      | <b>(1,077)</b> |
| <b>Net cash generated from/(used in) financing activities</b> | 16,541    | <b>(4,003)</b> | (4,464)    | <b>(6)</b>     |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   | 1,524     | <b>151</b>     | 1,615      | <b>(648)</b>   |
| Exchange differences                                          | (45)      | <b>4</b>       | (15)       | <b>(3)</b>     |
| Cash and cash equivalents at January 1,                       | 2,134     | <b>3,613</b>   | 866        | <b>2,466</b>   |
| Cash and cash equivalents at December 31,                     | 3,613     | <b>3,768</b>   | 2,466      | <b>1,815</b>   |

The information above represents balances before inter-company eliminations and group consolidation adjustments.

The total comprehensive income after group consolidation adjustments of HKT Group for the year ended December 31, 2015 was HK\$4,022 million (2014: HK\$2,817 million), of which HK\$1,518 million (2014: HK\$1,105 million) was allocated to the non-controlling interests.

The total comprehensive loss after group consolidation adjustments of PCPD Group for the year ended December 31, 2015 was HK\$307 million (2014: total comprehensive income of HK\$90 million), of which an loss of HK\$23 million (2014: income of HK\$6 million) was allocated to the non-controlling interests.

The net assets after group consolidation adjustments of HKT Group as at December 31, 2015 were HK\$4,771 million (2014: HK\$4,511 million) and the net assets after group consolidation adjustments of PCPD Group as at December 31, 2015 were HK\$5,189 million (2014: HK\$5,497 million).

The total non-controlling interests as at December 31, 2015 were a credit balance of HK\$2,318 million (2014: HK\$2,212 million), of which a credit balance of HK\$1,884 million (2014: HK\$1,775 million) and a credit balance of HK\$384 million (2014: HK\$407 million) were attributed to HKT Group and PCPD Group, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 22 INTERESTS IN ASSOCIATES

| In HK\$ million                      | 2014  | 2015         |
|--------------------------------------|-------|--------------|
| Share of net assets of associates    | 574   | <b>611</b>   |
| Loans due from associates, net       | 302   | <b>291</b>   |
| Amount due from an associate         | 34    | <b>34</b>    |
|                                      | 910   | <b>936</b>   |
| Provision for impairment             | (223) | <b>(318)</b> |
|                                      | 687   | <b>618</b>   |
| Investments at cost, unlisted shares | 761   | <b>755</b>   |

a. As at December 31, 2015, particulars of the principal associates of the Group are as follows:

| Company name                                                                           | Principal place of business/ place of incorporation | Principal activities                                                                                         | Amount of issued capital/registered capital | Interest held by the Company |            | Measurement method |
|----------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------|------------|--------------------|
|                                                                                        |                                                     |                                                                                                              |                                             | Directly                     | Indirectly |                    |
| 石化盈科信息技術有限責任公司<br>(Petro-CyberWorks Information Technology Company Limited*) ("PCITC") | The PRC                                             | Design and development of enterprise resource planning systems, and customer relationship management systems | RMB300,000,000                              | –                            | 45%        | Equity             |
| 東莞捷通達電訊有限公司<br>(Dongguan Jietongda Telecommunications Company Limited*) ("DJTCL")      | The PRC                                             | Provision of support service for mobile service subscription, sales of mobile phones and accessories         | RMB40,000,000                               | –                            | 22.1%      | Equity             |

\* Unofficial company name

PCITC is strategic to the Group's growth in its Solutions business and provides the Group with access to expertise in design and development of enterprise resources planning, logistics management, supply chain management, customer relationship management and information system supervision, consultation and testing. DJTCL is a strategic intent for the Group's growth in telecommunications business in the PRC market, providing telecommunications subscription services and sales of mobile phones and accessories.

The above associates are private companies and there are no quoted market prices available for their shares or equity.

## 22 INTERESTS IN ASSOCIATES (CONTINUED)

### b. Commitments and contingent liabilities in respect of associates

As at December 31, 2015, the Group's share of its associates' commitments, based on the Group's effective interest, are as follows:

| In HK\$ million                 | 2014 | 2015 |
|---------------------------------|------|------|
| Operating lease commitments     |      |      |
| Within 1 year                   | 10   | 7    |
| After 1 year but within 5 years | 8    | 4    |
|                                 | 18   | 11   |

The Group's contingent liabilities relating to its associates were disclosed in note 39. As at December 31, 2015, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK\$14 million (2014: HK\$10 million).

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

Set out below is the summarized unaudited financial information for associates that are material to the Group and are accounted for using equity method.

Summarized unaudited financial information is as follows:

| In HK\$ million         | PCITC                      |         | DJTCL                      |       |
|-------------------------|----------------------------|---------|----------------------------|-------|
|                         | As at December 31,<br>2014 | 2015    | As at December 31,<br>2014 | 2015  |
| Non-current assets      | 642                        | 645     | 25                         | 3     |
| Current assets          | 2,169                      | 3,064   | 97                         | 57    |
| Current liabilities     | (1,694)                    | (2,494) | (389)                      | (404) |
| Non-current liabilities | (59)                       | (54)    | –                          | –     |

  

| In HK\$ million                                                      | PCITC                                   |       | DJTCL                                   |      |
|----------------------------------------------------------------------|-----------------------------------------|-------|-----------------------------------------|------|
|                                                                      | For the year ended December 31,<br>2014 | 2015  | For the year ended December 31,<br>2014 | 2015 |
| Revenue                                                              | 2,926                                   | 3,212 | 462                                     | 226  |
| Profit/(Loss) after income tax and total comprehensive income/(loss) | 162                                     | 166   | (100)                                   | (77) |
| Dividends received from associates                                   | 6                                       | 5     | –                                       | –    |

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

For the year ended December 31, 2015, the aggregate total net amount of the Group's shares of the profit after income tax, other comprehensive loss and total comprehensive income in individually immaterial associates that are accounted for using the equity method were HK\$4 million (2014: HK\$7 million), nil (2014: HK\$1 million) and HK\$5 million (2014: HK\$6 million), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 22 INTERESTS IN ASSOCIATES (CONTINUED)

#### d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in the principal associates.

| In HK\$ million                                                  | PCITC |       | DJTCL |       |
|------------------------------------------------------------------|-------|-------|-------|-------|
|                                                                  | 2014  | 2015  | 2014  | 2015  |
| <b>Net assets/(liabilities)</b>                                  |       |       |       |       |
| Beginning of year                                                | 921   | 1,058 | (167) | (267) |
| Profit/(Loss) and total comprehensive income/(loss) for the year | 162   | 166   | (100) | (77)  |
| Exchange differences                                             | (12)  | (52)  | –     | –     |
| Dividends                                                        | (13)  | (11)  | –     | –     |
| End of year                                                      | 1,058 | 1,161 | (267) | (344) |
| Interests in associates                                          | 45%   | 45%   | 35%*  | 35%*  |
| Interests in associates                                          | 476   | 522   | (93)  | (120) |
| Goodwill                                                         | –     | –     | 24    | 24    |
| Loans due from an associate                                      | –     | –     | 292   | 310   |
| Provision for impairment                                         | –     | –     | (52)  | (147) |
| Carrying value                                                   | 476   | 522   | 171   | 67    |

\* The Group held approximately 22.1% effective interest in the equity of DJTCL as at December 31, 2014 and 2015.

As at December 31, 2015, loans due from an associate comprised certain unsecured loans totaling HK\$96 million (2014: HK\$74 million) which bear interest at 4% per annum (2014: 4% per annum) and repayable in 1 year, and certain secured loans totaling HK\$214 million (2014: HK\$218 million) which bear interest at 4% per annum (2014: 4% per annum) and repayable in 1 year.

As at December 31, 2015, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK\$29 million (2014: HK\$40 million).

During the year ended December 31, 2015, the Group did not have any unrecognized share of losses of associates (2014: nil). As at December 31, 2015, the accumulated share of losses of the associates unrecognized by the Group was nil (2014: nil).

### 23 INTERESTS IN JOINT VENTURES

| In HK\$ million                       | 2014             | 2015             |
|---------------------------------------|------------------|------------------|
| Share of net assets of joint ventures | 2,833            | 2,819            |
| Loans due from joint ventures         | 501              | 509              |
| Amounts due from joint ventures       | 26               | 25               |
| Provision for impairment              | 3,360<br>(2,863) | 3,353<br>(2,868) |
|                                       | 497              | 485              |
| Investments at cost, unlisted shares  | 3,664            | 3,664            |

## 23 INTERESTS IN JOINT VENTURES (CONTINUED)

As at December 31, 2015, balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK\$484 million bears interest at HIBOR plus 3% per annum with no fixed terms of repayment.

As at December 31, 2014, balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK\$478 million bears interest at HIBOR plus 3% per annum with no fixed terms of repayment and the loan due from a joint venture of HK\$15 million bears interest at 4% per annum and repayable over two years but not exceeding five years.

a. As at December 31, 2015, particulars of the principal joint venture of the Group are as follows:

| Company name                 | Principal place of business/ place of incorporation | Principal activities                                         | Amount 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               | –                            | 31.5%      | Equity             |

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

The 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, 2015, the Group's share of its joint ventures' commitments, based on the Group's effective interest, are as follows:

| In HK\$ million                 | 2014 | 2015 |
|---------------------------------|------|------|
| Commitment to provide funding   | 71   | 61   |
| In HK\$ million                 | 2014 | 2015 |
| Operating lease commitments     |      |      |
| Within 1 year                   | 2    | 2    |
| After 1 year but within 5 years | 3    | 3    |
|                                 | 5    | 5    |

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2015, the Group's effective share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK\$24 million (2014: HK\$24 million) and corporate guarantees of HK\$52 million (2014: HK\$100 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 23 INTERESTS IN JOINT VENTURES (CONTINUED)

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

Set out below is summarized unaudited financial information for the joint venture that is material to the Group and accounted for using the equity method.

In HK\$ million

|                                                                                   | GBL<br>As at December 31, |       |
|-----------------------------------------------------------------------------------|---------------------------|-------|
|                                                                                   | 2014                      | 2015  |
| Non-current assets                                                                | 1,063                     | 1,029 |
| Current assets                                                                    |                           |       |
| Cash and cash equivalents                                                         | 43                        | 9     |
| Other current assets (excluding cash and cash equivalents)                        | 20                        | 21    |
| Total current assets                                                              | 63                        | 30    |
| Current liabilities                                                               |                           |       |
| Financial liabilities (excluding trade payables, other payables and accruals)     | (261)                     | (244) |
| Other current liabilities (including trade payables, other payables and accruals) | (54)                      | (28)  |
| Total current liabilities                                                         | (315)                     | (272) |
| Non-current liabilities                                                           |                           |       |
| Financial liabilities (excluding trade payables, other payables and accruals)     | (842)                     | (827) |
| Total non-current liabilities                                                     | (842)                     | (827) |
| Net liabilities                                                                   | (31)                      | (40)  |
| Equity attributable to equity holders                                             | (31)                      | (40)  |

## 23 INTERESTS IN JOINT VENTURES (CONTINUED)

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

| In HK\$ million                                    | GBL                                     |      |
|----------------------------------------------------|-----------------------------------------|------|
|                                                    | For the year ended December 31,<br>2014 | 2015 |
| Revenue                                            | 227                                     | 241  |
| Depreciation and amortization                      | (91)                                    | (92) |
| Interest expense                                   | (38)                                    | (35) |
| Profit before income tax                           | 1                                       | 2    |
| Income tax                                         | (23)                                    | (11) |
| Loss after income tax and total comprehensive loss | (22)                                    | (9)  |
| Dividends 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.

For the year ended December 31, 2015, the aggregate total net amount of the Group's shares of the loss after income tax, other comprehensive income and total comprehensive loss in individually immaterial joint ventures that are accounted for using the equity method were HK\$10 million (2014: profit after income tax of HK\$16 million), nil (2014: nil) and HK\$10 million (2014: total comprehensive income of HK\$16 million), respectively.

### d. Reconciliation of summarized unaudited financial information

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

| In HK\$ million                                | GBL  |      |
|------------------------------------------------|------|------|
|                                                | 2014 | 2015 |
| <b>Net liabilities</b>                         |      |      |
| Beginning of year                              | (9)  | (31) |
| Loss and total comprehensive loss for the year | (22) | (9)  |
| End of year                                    | (31) | (40) |
| Interest in joint venture                      | 50%* | 50%* |
| Interest in joint venture                      | (16) | (20) |
| Loan due from a joint venture                  | 478  | 484  |
| Carrying value                                 | 462  | 464  |

\* The Group held approximately 31.5% effective interest in equity of GBL as at December 31, 2014 and 2015.

As at December 31, 2015, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK\$21 million (2014: HK\$35 million).

During the year ended December 31, 2015, the Group had unrecognized share of profit of joint ventures of HK\$10 million (2014: HK\$1 million). As at December 31, 2015, the accumulated share of losses of the joint ventures unrecognized by the Group was nil (2014: HK\$10 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| In HK\$ million                                            | 2014 | 2015        |
|------------------------------------------------------------|------|-------------|
| Beginning of year                                          | 706  | <b>754</b>  |
| Additions                                                  | 176  | <b>172</b>  |
| Disposals                                                  | (1)  | <b>(30)</b> |
| Return of investments                                      | (28) | <b>–</b>    |
| Reclassification of equity interests upon step acquisition | –    | <b>(78)</b> |
| Impairment loss recognized                                 | (12) | <b>(2)</b>  |
| Net losses transferred to equity                           | (87) | <b>(10)</b> |
| End of year                                                | 754  | <b>806</b>  |

  

| In HK\$ million                     | 2014 | 2015       |
|-------------------------------------|------|------------|
| Listed equity securities – overseas | 104  | <b>24</b>  |
| Unlisted equity securities          | 650  | <b>782</b> |
|                                     | 754  | <b>806</b> |

During the year ended December 31, 2015, provision for impairment of HK\$2 million (2014: HK\$12 million) was included in other gains, net in the consolidated income statement and there was no transfer (2014: no transfer) from equity to the consolidated income statement on impairment. This was a result of the estimated recoverable amount being lower than its carrying amount. The Group does not hold any collateral over these balances.

During the year ended December 31, 2015, available-for-sale financial assets with a carrying value of approximately HK\$30 million (2014: HK\$1 million) were sold and a total realized gain of HK\$32 million (2014: HK\$1 million) was recognized in other gains, net in the consolidated income statement, including the transfer of HK\$1 million (2014: HK\$1 million) from equity to the consolidated income statement on disposal.

### 25 CURRENT ASSETS AND LIABILITIES

#### a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders. These amounts will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

#### b. Restricted cash

The balance of the Group mainly represented a restricted cash balance of approximately HK\$96 million as at December 31, 2015 (2014: HK\$1,022 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement.

#### c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group were prepaid programme costs of approximately HK\$141 million as at December 31, 2015 (2014: HK\$179 million).

## 25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

### d. Inventories

| In HK\$ million        | 2014 | 2015 |
|------------------------|------|------|
| Work-in-progress       | 420  | 407  |
| Finished goods         | 313  | 316  |
| Consumable inventories | 68   | 51   |
|                        | 801  | 774  |

### e. Trade receivables, net

| In HK\$ million                                             | 2014  | 2015  |
|-------------------------------------------------------------|-------|-------|
| Trade receivables ( <i>note i</i> )                         | 4,731 | 4,216 |
| Less: Impairment loss for doubtful debts ( <i>note ii</i> ) | (234) | (247) |
| Trade receivables, net                                      | 4,497 | 3,969 |

#### i. Aging of trade receivables based on the date of invoice

| In HK\$ million | 2014  | 2015  |
|-----------------|-------|-------|
| 0–30 days       | 2,479 | 2,297 |
| 31–60 days      | 640   | 651   |
| 61–90 days      | 289   | 256   |
| 91–120 days     | 190   | 207   |
| Over 120 days   | 1,133 | 805   |
|                 | 4,731 | 4,216 |

#### ii. Impairment loss for doubtful debts

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

| In HK\$ million                   | 2014  | 2015  |
|-----------------------------------|-------|-------|
| Beginning of year                 | 224   | 234   |
| Impairment loss recognized        | 187   | 312   |
| Uncollectible amounts written off | (177) | (299) |
| End of year                       | 234   | 247   |

As at December 31, 2015, trade receivables of HK\$137 million (2014: HK\$156 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK\$137 million (2014: HK\$156 million) was recognized. The Group does not hold any collateral over these balances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

#### e. Trade receivables, net (continued)

##### iii. Trade receivables that are not impaired

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| In HK\$ million                      | 2014  | 2015  |
|--------------------------------------|-------|-------|
| Neither past due nor impaired        | 2,053 | 1,880 |
| 1–30 days past due                   | 924   | 921   |
| 31–60 days past due                  | 328   | 307   |
| 61–90 days past due                  | 203   | 157   |
| Over 90 days past due                | 989   | 704   |
| Past due but not considered impaired | 2,444 | 2,089 |
|                                      | 4,497 | 3,969 |

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not considered impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

#### f. Short-term borrowings

| In HK\$ million                                           | 2014  | 2015  |
|-----------------------------------------------------------|-------|-------|
| US\$500 million 5.25% guaranteed notes due 2015 (note i)  | 3,877 | –     |
| US\$500 million 4.25% guaranteed notes due 2016 (note ii) | –     | 3,879 |
| Bank borrowings (note iii)                                | 946   | –     |
|                                                           | 4,823 | 3,879 |
| Secured                                                   | –     | –     |
| Unsecured                                                 | 4,823 | 3,879 |

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

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

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

## 25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

### f. Short-term borrowings (continued)

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

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

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

#### iii. Bank borrowings

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

Please refer to note 40 for details of the Group's bank loan facilities.

### g. Trade payables

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

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

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

## 26 LONG-TERM BORROWINGS

| In HK\$ million                                                | 2014   | 2015   |
|----------------------------------------------------------------|--------|--------|
| Repayable within a period                                      |        |        |
| – over one year, but not exceeding two years                   | 11,798 | 3,544  |
| – over two years, but not exceeding five years                 | 18,835 | 20,077 |
| – over five years                                              | 5,861  | 14,469 |
|                                                                | 36,494 | 38,090 |
| Representing:                                                  |        |        |
| US\$500 million 4.25% guaranteed notes due 2016 (note a)       | 3,924  | –      |
| US\$300 million 5.75% guaranteed notes due 2022 (note b)       | 2,167  | 2,194  |
| US\$500 million 3.75% guaranteed notes due 2023 (note c)       | 3,694  | 3,711  |
| US\$300 million zero coupon guaranteed notes due 2030 (note d) | –      | 2,308  |
| US\$500 million 3.625% guaranteed notes due 2025 (note e)      | –      | 3,821  |
| €200 million 1.65% guaranteed notes due 2027 (note f)          | –      | 1,666  |
| US\$100 million zero coupon guaranteed notes due 2030 (note g) | –      | 769    |
| Bank borrowings                                                | 26,709 | 23,621 |
|                                                                | 36,494 | 38,090 |
| Secured                                                        | –      | –      |
| Unsecured                                                      | 36,494 | 38,090 |

## 26 LONG-TERM BORROWINGS (CONTINUED)

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

The notes were classified as short-term borrowings as at December 31, 2015. Please refer to note 25(f)(ii) for more details.

### b. US\$300 million 5.75% guaranteed notes due 2022

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

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

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

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

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

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

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

### f. €200 million 1.65% guaranteed notes due 2027

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

### g. US\$100 million zero coupon guaranteed notes due 2030

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

Please refer to note 40 for details of the Group's bank loan facilities.

## 27 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

| In HK\$ million                                | 2015                                                   |        |       |
|------------------------------------------------|--------------------------------------------------------|--------|-------|
|                                                | Government share under the Cyberport Project Agreement | Others | Total |
| Beginning of year                              | 517                                                    | 5      | 522   |
| Reversal                                       | (1)                                                    | (5)    | (6)   |
| Settlement during the year                     | (194)                                                  | –      | (194) |
| End of year, classified as current liabilities | 322                                                    | –      | 322   |

Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.

Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the Government is based on the surplus from sales proceeds of the residential portion after the development costs of the Cyberport project.

## 28 DERIVATIVE FINANCIAL INSTRUMENTS

| In HK\$ million                                                                     | 2014  | 2015  |
|-------------------------------------------------------------------------------------|-------|-------|
| Current assets                                                                      |       |       |
| Currency call spread options ( <i>note a</i> )                                      | –     | 60    |
| Fixed-to-fixed cross currency swap contracts – cash flow hedges ( <i>note b</i> )   | 49    | –     |
|                                                                                     | 49    | 60    |
| Non-current liabilities                                                             |       |       |
| Fixed-to-fixed cross currency swap contracts and foreign exchange forward contracts |       |       |
| – cash value hedges ( <i>notes b and c</i> )                                        | –     | (449) |
| Fixed-to-floating cross currency swap contracts                                     |       |       |
| – cash flow hedges ( <i>note c</i> )                                                | 17    | (32)  |
| Fixed-to-floating cross currency swap contracts                                     |       |       |
| – fair value hedges ( <i>note c</i> )                                               | (234) | (105) |
|                                                                                     | (217) | (586) |

**28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

As at December 31, 2015, the Group had outstanding cross currency swap contracts with an aggregate notional contract amounts of US\$1,300 million (approximately HK\$10,083 million) (2014: US\$1,300 million (approximately HK\$10,096 million)) and Euro200 million (approximately HK\$1,665 million) at various rates, to manage the Group's exposure to foreign currency and interest rate risk. The Group had 5 years foreign exchange forward contracts with an aggregate amount of US\$503 million (approximately HK\$3,887 million) and an Indonesian rupiah/United States dollar currency call spread option of a notional amount of US\$200 million to manage the Group's exposure to foreign currency fluctuations.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining 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 less than 12 months.

**a.** On June 25, 2015, the PCPD Group executed an Indonesian rupiah/United States dollar currency call spread option for a notional amount of US\$200 million with a tenor of one year (the "Option"). The Option will expire on June 27, 2016. An option premium of US\$8 million (equivalent to HK\$62 million) was paid up-front. The Option was purchased for the purpose of managing the risk of foreign currency exposure arising from the PCPD Group's net investment in the foreign operation in Indonesia. It is recognized as a derivative financial instrument at fair value as at June 25, 2015 of HK\$62 million and the mark-to-market value as at December 31, 2015 was HK\$60 million. The difference of HK\$2 million is recognized in "Other gains, net" in the consolidated income statement for the year ended December 31, 2015.

**b.** The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2015 with notional contract amounts of US\$500 million (approximately HK\$3,877 million) (2014: US\$500 million (approximately HK\$3,890 million)) was designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Group has fixed the USD/HKD exchange rate at 7.7545-7.7550 (2014: 7.7790) for the notional amounts (see note 37(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts will be continuously released to the consolidated income statement until the repayment of the borrowings.

During the year ended December 31, 2015, the Group entered into 5 years foreign exchange forward contracts with an aggregate notional contract amount of US\$503 million (approximately HK\$3,887 million) (2014: nil). The contracts were designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. The Group has fixed the USD/HKD exchange rate at 7.7329-7.7330 (2014: nil) for the notional amounts (see note 37(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance costs" represents the ineffective portion of hedging relationship, amounted to a loss of approximately HK\$21 million (2014: nil) for the year ended December 31, 2015.

## 28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During the year ended December 31, 2015, the Group entered into a fixed-to-fixed cross currency swap contract with notional contract amount of Euro200 million (approximately HK\$1,665 million) (2014: nil). The contract was designated as cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of this swap contract matches with the maturity of the underlying borrowings and the Group has fixed the Euro/HKD exchange rate at 8.3245 for the notional amount (see note 37(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance costs" represents the ineffective portion of hedging relationship, amounted to a loss of approximately HK\$17 million (2014: nil) for the year ended December 31, 2015.

c. The Group entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2015 with an aggregate notional contract amount of US\$800 million (approximately HK\$6,205 million) (2014: US\$800 million (approximately HK\$6,205 million)). Maturity of these swap contracts matches with the maturity of the underlying fixed rate borrowings and the Group has fixed the USD/HKD exchange rate at 7.7555 to 7.7570 (2014: 7.7555 to 7.7570) for the notional amounts (see note 37(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% to HIBOR plus 4.43% (2014: HIBOR plus 2.115% to HIBOR plus 4.43%) (see note 37(c)(ii)).

During the year ended December 31, 2015, the Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of HK\$3,879 million. Accordingly, in relation to this fixed-rate portion, the Group had a synthetic fixed-to-fixed cross currency swap contract position and re-designated such swap contracts as cash flow hedges.

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

Gains and losses recognized in the hedging reserve under equity on those swap contracts and forward contracts designated as cash flow hedges will be continuously released to the income statement until the repayment of the borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated statement of financial position and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately a gain of HK\$4 million for the current year (2014: gain of HK\$2 million).

### 29 SHARE CAPITAL

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

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

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

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

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

### 30 EMPLOYEE RETIREMENT BENEFITS

#### a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payments for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by an independent trustee and maintained independently of the Group's finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendation from time to time on the basis of periodic valuations.

According to funding valuation as at December 31, 2014, the expected contributions to the DB Schemes for the year ending December 31, 2016 are approximately HK\$7 million.

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19 (2011), was carried out on December 31, 2015 by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 55% (2014: 61%) of the present value of the defined benefit obligations as at December 31, 2015.

The weighted average duration of the defined benefit obligations is 12.4 years (2014: 12.4 years).

#### i. The amount recognized in the consolidated statement of financial position is as follows:

| In HK\$ million                                                               | 2014  | 2015         |
|-------------------------------------------------------------------------------|-------|--------------|
| Present value of the defined benefit obligations ( <i>note iii</i> )          | 295   | <b>296</b>   |
| Fair value of scheme assets ( <i>note iv</i> )                                | (179) | <b>(163)</b> |
| Defined benefit liability in the consolidated statement of financial position | 116   | <b>133</b>   |

#### ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

|                         | 2014 | 2015        |
|-------------------------|------|-------------|
| Equities                | 55%  | <b>52%</b>  |
| Fixed income securities | 42%  | <b>43%</b>  |
| Cash and alternatives   | 3%   | <b>5%</b>   |
| Total                   | 100% | <b>100%</b> |

The Group ensures that the investment positions are managed within an asset-liability matching framework with the objective to match assets to the defined benefit obligations (i.e. to match the benefit payments as they fall due and in the appropriate currency). The Group has not changed the process used to manage its risk from previous periods.

Through the DB Schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

- Investment risk: strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit liability/asset, whilst poor or negative investment returns tend to weaken the position.

The scheme assets are invested in a globally diversified portfolio of equities, fixed income securities, cash and alternatives, covering major geographical locations around the world to achieve the best returns over the long term within an acceptable level of risk. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.

- Interest rate risk: the defined benefit obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit obligations and vice versa. As the bond yields have been volatile in recent years, the discount rate has changed significantly.
- Inflation risk: pension in payment or in deferment may be increased once a year to reflect all or part of the cost-of-living increases in Hong Kong. The higher-than-expected increases in pensions will increase the defined benefit obligations and vice versa.
- Longevity risk: the defined benefit obligations are calculated by reference to the best estimate of the mortality of members after their employment. A decrease in mortality (i.e. improvement in life expectancy) will increase the defined benefit obligations.

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### 30 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### a. Defined benefit retirement schemes (continued)

##### iii. Movements in the present value of the defined benefit obligations are as follows:

| In HK\$ million                           | 2014 | 2015 |
|-------------------------------------------|------|------|
| Beginning of year                         | 283  | 295  |
| Interest cost                             | 7    | 6    |
| Remeasurements                            |      |      |
| Experience losses                         | 5    | 2    |
| Loss from change in financial assumptions | 14   | 8    |
| Benefits paid                             | (14) | (15) |
| End of year                               | 295  | 296  |

##### iv. Movements in the fair value of scheme assets are as follows:

| In HK\$ million                                           | 2014 | 2015 |
|-----------------------------------------------------------|------|------|
| Beginning of year                                         | 185  | 179  |
| Contribution from employers                               | –    | 3    |
| Interest income on scheme assets                          | 4    | 4    |
| Return on scheme assets greater/(less) than discount rate | 4    | (8)  |
| Benefits paid                                             | (14) | (15) |
| End of year                                               | 179  | 163  |

##### v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

| In HK\$ million                                                                          | 2014 | 2015 |
|------------------------------------------------------------------------------------------|------|------|
| Net interest on net defined benefit liability                                            | 3    | 2    |
| Total included in General and administrative expenses – retirement costs for other staff | 3    | 2    |

##### vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

|                       | 2014  | 2015  |
|-----------------------|-------|-------|
| Discount rate         | 2.10% | 1.90% |
| Pension increase rate | 3.00% | 3.00% |

Based on the Hong Kong Life Tables 2011 released by the Government and upon observing the past experience of the DB Schemes, the Group adopted the Hong Kong Life Tables 2011 with a 3-year age set forward for the years ended December 31, 2014 and 2015.

### 30 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### a. Defined benefit retirement schemes (continued)

#### vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows: (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

|                       | Change in assumption | Impact on defined benefit obligations |                        |                        |                        |
|-----------------------|----------------------|---------------------------------------|------------------------|------------------------|------------------------|
|                       |                      | 2014                                  |                        | 2015                   |                        |
|                       |                      | Increase in assumption                | Decrease in assumption | Increase in assumption | Decrease in assumption |
| Discount rate         | <b>0.25%</b>         | (3.10%)                               | 3.30%                  | <b>(3.10%)</b>         | <b>3.30%</b>           |
| Pension increase rate | <b>0.25%</b>         | 3.20%                                 | n/a*                   | <b>3.10%</b>           | <b>n/a*</b>            |
| Mortality             | <b>1 year</b>        | (4.60%)**                             | 4.80%**                | <b>(4.80%)**</b>       | <b>4.90%**</b>         |

\* Certain pension payments of the DB Schemes are subject to a minimum pension increase rate of 3.00% per annum taking into account of inflation and other market factors.

\*\* Increase in assumption means the Hong Kong Life Tables 2011 with a 4-year age set forward, whereas decrease in assumption means the Hong Kong Life Tables 2011 with a 2-year age set forward.

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

#### vii. Expected maturity analysis of undiscounted defined benefits as at December 31, 2014 and 2015 are as follows:

| In HK\$ million               |               |                                     |                                              |                   |       |
|-------------------------------|---------------|-------------------------------------|----------------------------------------------|-------------------|-------|
|                               | Within 1 year | More than 1 year but within 2 years | 2014<br>More than 2 years but within 5 years | More than 5 years | Total |
| Undiscounted defined benefits | 14            | 14                                  | 43                                           | 325               | 396   |

  

| In HK\$ million               |               |                                     |                                              |                   |       |
|-------------------------------|---------------|-------------------------------------|----------------------------------------------|-------------------|-------|
|                               | Within 1 year | More than 1 year but within 2 years | 2015<br>More than 2 years but within 5 years | More than 5 years | Total |
| Undiscounted defined benefits | 14            | 14                                  | 44                                           | 312               | 384   |

### 30 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### b. Defined contribution retirement schemes

The Group also operates 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 service in the relevant service period.

### 31 SHARE-BASED PAYMENT TRANSACTIONS

#### a. Share option scheme of the Company

The Company operates a share option scheme which was adopted by the shareholders of the Company at the annual general meeting of the Company held on May 8, 2014 (the “2014 Scheme”). Under the 2014 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

- i. The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and PCCW Shares for the benefit of the Company and its shareholders as a whole.
- ii. Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.
- iii. The maximum number of PCCW Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the PCCW Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders’ approval. The overall limit on the number of PCCW Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of the Company must not exceed 30% of the PCCW Shares in issue from time to time.
- iv. The total number of PCCW Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the PCCW Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the PCCW Shares in issue and HK\$5 million in aggregate value based on the closing price of the PCCW Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders’ approval at general meeting.

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### **a. Share option scheme of the Company** *(continued)*

- v. The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.
- vi. The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.
- vii. The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCCW Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the PCCW Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade PCCW Shares on the Stock Exchange.
- viii. Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

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

#### **b. Share award schemes of the Company**

The Company adopted two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme (collectively the “PCCW Share Award Schemes”) with the purposes and objectives to recognize the contributions by eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

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

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

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

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### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

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

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the PCCW Shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the PCCW Shares, in the future. The relevant committee of the Board may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

A summary of movements in PCCW Shares and Share Stapled Units held under the Purchase Scheme and the Subscription Scheme during the year is as follows:

|                                                                                                                     | Number of PCCW Shares |             |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|-------------|
|                                                                                                                     | 2014                  | 2015        |
| The Purchase Scheme:                                                                                                |                       |             |
| Beginning of year                                                                                                   | 19,104,824            | 11,116,787  |
| Purchase from market by the Trustee at weighted average market price of HK\$4.98<br>(2014: HK\$4.20) per PCCW Share | 855,000               | 5,837,000   |
| Transfer to grantees in lieu of cash dividends                                                                      | (12,611)              | (220)       |
| PCCW Shares vested                                                                                                  | (8,830,426)           | (9,390,562) |
| End of year                                                                                                         | 11,116,787            | 7,563,005   |
| The Subscription Scheme:                                                                                            |                       |             |
| Beginning of year                                                                                                   | –                     | 10,000,000  |
| Newly issued by the Company at issue price of HK\$0.01 per PCCW Share                                               | 10,000,000            | –           |
| Transfer to grantees in lieu of cash dividends                                                                      | –                     | (1,521)     |
| PCCW Shares vested                                                                                                  | –                     | (2,504,633) |
| End of year                                                                                                         | 10,000,000            | 7,493,846   |

  

|                                                                                                                                     | Number of Share Stapled Units |           |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------|
|                                                                                                                                     | 2014                          | 2015      |
| The Purchase Scheme:                                                                                                                |                               |           |
| Beginning of year                                                                                                                   | 169,413                       | 194,959   |
| Purchase from market by the Trustee at weighted average market price of HK\$9.93<br>(2014: HK\$9.05) per Share Stapled Unit         | 65,000                        | 191,000   |
| Purchase under the rights issue of the HKT Trust and HKT by the Trustee at subscription price<br>of HK\$6.84 per Share Stapled Unit | 28,924                        | –         |
| Transfer to grantees for PCCW Shares vested                                                                                         | (45,152)                      | (75,239)  |
| Share Stapled Units vested                                                                                                          | (23,226)                      | (116,097) |
| End of year                                                                                                                         | 194,959                       | 194,623   |

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

Details of PCCW Shares and Share Stapled Units awarded pursuant to the Purchase Scheme and the Subscription Scheme during the year and the PCCW Shares and the Share Stapled Units unvested, are as follows:

#### i. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

|                          | 2014                                                           |                          | 2015                                                           |                          |
|--------------------------|----------------------------------------------------------------|--------------------------|----------------------------------------------------------------|--------------------------|
|                          | Weighted average<br>fair value on the<br>date of award<br>HK\$ | Number of<br>PCCW Shares | Weighted average<br>fair value on the<br>date of award<br>HK\$ | Number of<br>PCCW Shares |
| The Purchase Scheme:     |                                                                |                          |                                                                |                          |
| Beginning of year        | 3.33                                                           | 18,552,903               | 3.62                                                           | 13,129,985 <sup>#</sup>  |
| Awarded (note iii)       | 4.01                                                           | 3,839,278                | 5.35                                                           | 3,265,515                |
| Forfeited (note iv)      | 3.94                                                           | (1,227,689)              | 4.22                                                           | (40,213)                 |
| Vested (note v)          | 3.22                                                           | (8,830,426)              | 3.50                                                           | (9,390,562)              |
| End of year (note ii)    | 3.53                                                           | 12,334,066               | 4.59                                                           | 6,964,725                |
| The Subscription Scheme: |                                                                |                          |                                                                |                          |
| Beginning of year        | N/A                                                            | –                        | 3.99                                                           | 5,108,138 <sup>#</sup>   |
| Awarded (note iii)       | 4.12                                                           | 6,099,854                | 5.35                                                           | 3,790,428                |
| Forfeited (note iv)      | 3.99                                                           | (195,797)                | 4.52                                                           | (306,131)                |
| Vested (note v)          | N/A                                                            | –                        | 3.99                                                           | (2,504,633)              |
| End of year (note ii)    | 4.12                                                           | 5,904,057                | 4.81                                                           | 6,087,802                |

<sup>#</sup> During the year ended December 31, 2015, 795,919 PCCW Shares granted on November 10, 2014 under the Subscription Scheme were re-designated as granted under the Purchase Scheme.

|                       | 2014                                                           |                                     | 2015                                                           |                                     |
|-----------------------|----------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------|-------------------------------------|
|                       | Weighted average<br>fair value on the<br>date of award<br>HK\$ | Number of<br>Share Stapled<br>Units | Weighted average<br>fair value on the<br>date of award<br>HK\$ | Number of<br>Share Stapled<br>Units |
| The Purchase Scheme:  |                                                                |                                     |                                                                |                                     |
| Beginning of year     | 7.59                                                           | 17,450                              | 9.04                                                           | 302,144                             |
| Awarded (note iii)    | 9.08                                                           | 307,920                             | 10.30                                                          | 13,163                              |
| Forfeited (note iv)   | N/A                                                            | –                                   | 9.13                                                           | (8,917)                             |
| Vested (note v)       | 8.55                                                           | (23,226)                            | 8.95                                                           | (116,097)                           |
| End of year (note ii) | 9.04                                                           | 302,144                             | 9.17                                                           | 190,293                             |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

##### ii. Terms of unvested PCCW Shares and Share Stapled Units at the end of the reporting period

| Date of award            | Vesting period                         | Fair value<br>on the date<br>of award<br>HK\$ | Number of PCCW Shares |           |
|--------------------------|----------------------------------------|-----------------------------------------------|-----------------------|-----------|
|                          |                                        |                                               | 2014                  | 2015      |
| The Purchase Scheme:     |                                        |                                               |                       |           |
| March 5, 2012            | March 5, 2012 to July 8, 2015          | 2.93                                          | 3,461,000             | –         |
| March 21, 2013           | March 21, 2013 to March 21, 2015       | 3.62                                          | 3,792,114             | –         |
| May 10, 2013             | May 10, 2013 to May 10, 2015           | 4.17                                          | 308,036               | –         |
| July 5, 2013             | July 5, 2013 to July 8, 2016           | 3.61                                          | 519,000               | 519,000   |
| July 5, 2013             | July 5, 2013 to July 8, 2017           | 3.61                                          | 1,211,000             | 1,211,000 |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                          | 1,451,594             | –         |
| April 11, 2014           | April 11, 2014 to April 11, 2016       | 3.99                                          | 1,591,322             | 1,583,499 |
| November 10, 2014        | November 10, 2014 to November 10, 2016 | 4.95                                          | –                     | 397,959*  |
| May 7, 2015              | May 7, 2015 to May 7, 2016             | 5.35                                          | –                     | 1,519,092 |
| May 7, 2015              | May 7, 2015 to May 7, 2017             | 5.35                                          | –                     | 1,734,175 |
|                          |                                        |                                               | 12,334,066            | 6,964,725 |
| The Subscription Scheme: |                                        |                                               |                       |           |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                          | 2,554,533             | –         |
| April 11, 2014           | April 11, 2014 to April 11, 2016       | 3.99                                          | 2,553,605             | 2,416,821 |
| November 10, 2014        | November 10, 2014 to November 10, 2015 | 4.95                                          | 397,960 <sup>#</sup>  | –         |
| November 10, 2014        | November 10, 2014 to November 10, 2016 | 4.95                                          | 397,959 <sup>#</sup>  | –         |
| May 7, 2015              | May 7, 2015 to May 7, 2016             | 5.35                                          | –                     | 1,836,134 |
| May 7, 2015              | May 7, 2015 to May 7, 2017             | 5.35                                          | –                     | 1,834,847 |
|                          |                                        |                                               | 5,904,057             | 6,087,802 |

<sup>#</sup> During the year ended December 31, 2015, 795,919 PCCW Shares granted on November 10, 2014 under the Subscription Scheme were re-designated as granted under the Purchase Scheme.

| Date of award        | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | Number of Share Stapled Units |         |
|----------------------|----------------------------------|-----------------------------------------------|-------------------------------|---------|
|                      |                                  |                                               | 2014                          | 2015    |
| The Purchase Scheme: |                                  |                                               |                               |         |
| March 21, 2013       | March 21, 2013 to March 21, 2015 | 7.59                                          | 8,725                         | –       |
| April 11, 2014       | April 11, 2014 to April 11, 2015 | 8.26                                          | 8,594                         | –       |
| April 11, 2014       | April 11, 2014 to April 11, 2016 | 8.26                                          | 8,594                         | 8,594   |
| July 1, 2014         | July 1, 2014 to April 1, 2015    | 9.13                                          | 101,751                       | –       |
| July 1, 2014         | July 1, 2014 to April 1, 2016    | 9.13                                          | 87,250                        | 84,277  |
| July 1, 2014         | July 1, 2014 to April 1, 2017    | 9.13                                          | 87,230                        | 84,259  |
| May 7, 2015          | May 7, 2015 to May 7, 2016       | 10.30                                         | –                             | 6,582   |
| May 7, 2015          | May 7, 2015 to May 7, 2017       | 10.30                                         | –                             | 6,581   |
|                      |                                  |                                               | 302,144                       | 190,293 |

The PCCW Shares and Share Stapled Units unvested at December 31, 2015 had a weighted average remaining vesting period of 0.73 years (2014: 0.77 years) and 0.74 years (2014: 1.15 years), respectively.

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

#### iii. Details of PCCW Shares and Share Stapled Units awarded during the year

|                          |                                        |                                      | Number of PCCW Shares         |           |
|--------------------------|----------------------------------------|--------------------------------------|-------------------------------|-----------|
| Date of award            | Vesting period                         | Fair value on the date of award HK\$ | 2014                          | 2015      |
| The Purchase Scheme:     |                                        |                                      |                               |           |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                 | 1,451,594                     | –         |
| April 11, 2014           | April 11, 2014 to April 11, 2016       | 3.99                                 | 1,591,322                     | –         |
| May 2, 2014              | May 2, 2014 to May 2, 2015             | 4.11                                 | 398,181                       | –         |
| May 2, 2014              | May 2, 2014 to May 2, 2016             | 4.11                                 | 398,181                       | –         |
| May 7, 2015              | May 7, 2015 to May 7, 2016             | 5.35                                 | –                             | 1,525,216 |
| May 7, 2015              | May 7, 2015 to May 7, 2017             | 5.35                                 | –                             | 1,740,299 |
|                          |                                        |                                      | 3,839,278                     | 3,265,515 |
| The Subscription Scheme: |                                        |                                      |                               |           |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                 | 2,652,462                     | –         |
| April 11, 2014           | April 11, 2014 to April 11, 2016       | 3.99                                 | 2,651,473                     | –         |
| November 10, 2014        | November 10, 2014 to November 10, 2015 | 4.95                                 | 397,960                       | –         |
| November 10, 2014        | November 10, 2014 to November 10, 2016 | 4.95                                 | 397,959                       | –         |
| May 7, 2015              | May 7, 2015 to May 7, 2016             | 5.35                                 | –                             | 1,895,897 |
| May 7, 2015              | May 7, 2015 to May 7, 2017             | 5.35                                 | –                             | 1,894,531 |
|                          |                                        |                                      | 6,099,854                     | 3,790,428 |
|                          |                                        |                                      | Number of Share Stapled Units |           |
| Date of award            | Vesting period                         | Fair value on the date of award HK\$ | 2014                          | 2015      |
| The Purchase Scheme:     |                                        |                                      |                               |           |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 8.26                                 | 8,594                         | –         |
| April 11, 2014           | April 11, 2014 to April 11, 2016       | 8.26                                 | 8,594                         | –         |
| July 1, 2014             | July 1, 2014 to July 1, 2014           | 9.13                                 | 14,501                        | –         |
| July 1, 2014             | July 1, 2014 to April 1, 2015          | 9.13                                 | 101,751                       | –         |
| July 1, 2014             | July 1, 2014 to April 1, 2016          | 9.13                                 | 87,250                        | –         |
| July 1, 2014             | July 1, 2014 to April 1, 2017          | 9.13                                 | 87,230                        | –         |
| May 7, 2015              | May 7, 2015 to May 7, 2016             | 10.30                                | –                             | 6,582     |
| May 7, 2015              | May 7, 2015 to May 7, 2017             | 10.30                                | –                             | 6,581     |
|                          |                                        |                                      | 307,920                       | 13,163    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

##### iv. Details of PCCW Shares and Share Stapled Units forfeited during the year

|                          |                                  |                                               | Number of PCCW Shares |         |
|--------------------------|----------------------------------|-----------------------------------------------|-----------------------|---------|
| Date of award            | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | 2014                  | 2015    |
| The Purchase Scheme:     |                                  |                                               |                       |         |
| April 11, 2012           | April 11, 2012 to April 11, 2014 | 2.80                                          | 2,974                 | –       |
| March 21, 2013           | March 21, 2013 to March 21, 2014 | 3.62                                          | 31,166                | –       |
| March 21, 2013           | March 21, 2013 to March 21, 2015 | 3.62                                          | 397,187               | 20,142  |
| April 11, 2014           | April 11, 2014 to April 11, 2016 | 3.99                                          | –                     | 7,823   |
| May 2, 2014              | May 2, 2014 to May 2, 2015       | 4.11                                          | 398,181               | –       |
| May 2, 2014              | May 2, 2014 to May 2, 2016       | 4.11                                          | 398,181               | –       |
| May 7, 2015              | May 7, 2015 to May 7, 2016       | 5.35                                          | –                     | 6,124   |
| May 7, 2015              | May 7, 2015 to May 7, 2017       | 5.35                                          | –                     | 6,124   |
|                          |                                  |                                               | 1,227,689             | 40,213  |
| The Subscription Scheme: |                                  |                                               |                       |         |
| April 11, 2014           | April 11, 2014 to April 11, 2015 | 3.99                                          | 97,929                | 49,900  |
| April 11, 2014           | April 11, 2014 to April 11, 2016 | 3.99                                          | 97,868                | 136,784 |
| May 7, 2015              | May 7, 2015 to May 7, 2016       | 5.35                                          | –                     | 59,763  |
| May 7, 2015              | May 7, 2015 to May 7, 2017       | 5.35                                          | –                     | 59,684  |
|                          |                                  |                                               | 195,797               | 306,131 |

|                      |                               |                                               | Number of Share Stapled Units |       |
|----------------------|-------------------------------|-----------------------------------------------|-------------------------------|-------|
| Date of award        | Vesting period                | Fair value<br>on the date<br>of award<br>HK\$ | 2014                          | 2015  |
| The Purchase Scheme: |                               |                                               |                               |       |
| July 1, 2014         | July 1, 2014 to April 1, 2015 | 9.13                                          | –                             | 2,973 |
| July 1, 2014         | July 1, 2014 to April 1, 2016 | 9.13                                          | –                             | 2,973 |
| July 1, 2014         | July 1, 2014 to April 1, 2017 | 9.13                                          | –                             | 2,971 |
|                      |                               |                                               | –                             | 8,917 |

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

##### v. Details of PCCW Shares and Share Stapled Units vested during the year

|                          |                                        | Fair value<br>on the date<br>of award<br>HK\$ | Number of PCCW Shares |           |
|--------------------------|----------------------------------------|-----------------------------------------------|-----------------------|-----------|
| Date of award            | Vesting period                         |                                               | 2014                  | 2015      |
| The Purchase Scheme:     |                                        |                                               |                       |           |
| March 5, 2012            | March 5, 2012 to July 8, 2014          | 2.93                                          | 2,077,000             | –         |
| March 5, 2012            | March 5, 2012 to July 8, 2015          | 2.93                                          | –                     | 3,461,000 |
| April 11, 2012           | April 11, 2012 to April 11, 2014       | 2.80                                          | 2,001,277             | –         |
| June 15, 2012            | June 15, 2012 to June 15, 2014         | 2.97                                          | 419,864               | –         |
| March 21, 2013           | March 21, 2013 to March 21, 2014       | 3.62                                          | 4,022,764             | –         |
| March 21, 2013           | March 21, 2013 to March 21, 2015       | 3.62                                          | 1,485*                | 3,771,972 |
| May 10, 2013             | May 10, 2013 to May 10, 2014           | 4.17                                          | 308,036               | –         |
| May 10, 2013             | May 10, 2013 to May 10, 2015           | 4.17                                          | –                     | 308,036   |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                          | –                     | 1,451,594 |
| November 10, 2014        | November 10, 2014 to November 10, 2015 | 4.95                                          | –                     | 397,960   |
|                          |                                        |                                               | 8,830,426             | 9,390,562 |
| The Subscription Scheme: |                                        |                                               |                       |           |
| April 11, 2014           | April 11, 2014 to April 11, 2015       | 3.99                                          | –                     | 2,504,633 |
|                          |                                        |                                               | –                     | 2,504,633 |

\* The vesting of the share awards was accelerated and the shares were vested before the vesting date pursuant to the delegated authority of the relevant committee of the Board.

|                      |                                  |                                               | Number of Share Stapled Units |         |
|----------------------|----------------------------------|-----------------------------------------------|-------------------------------|---------|
| Date of award        | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | 2014                          | 2015    |
| The Purchase Scheme: |                                  |                                               |                               |         |
| March 21, 2013       | March 21, 2013 to March 21, 2014 | 7.59                                          | 8,725                         | –       |
| March 21, 2013       | March 21, 2013 to March 21, 2015 | 7.59                                          | –                             | 8,725   |
| April 11, 2014       | April 11, 2014 to April 11, 2015 | 8.26                                          | –                             | 8,594   |
| July 1, 2014         | July 1, 2014 to July 1, 2014     | 9.13                                          | 14,501                        | –       |
| July 1, 2014         | July 1, 2014 to April 1, 2015    | 9.13                                          | –                             | 98,778  |
|                      |                                  |                                               | 23,226                        | 116,097 |

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### b. Share award schemes of the Company (continued)

##### v. Details of PCCW Shares and Share Stapled Units vested during the year (continued)

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

During the year, share-based compensation expenses in respect of the PCCW Shares and Share Stapled Units of HK\$39 million (2014: HK\$37 million) are recognized in the consolidated income statement and HK\$39 million (2014: HK\$37 million) are recognized in the employee share-based compensation reserve.

#### c. Share option schemes of PCPD

PCPD approved and adopted a share option scheme on March 17, 2003 (the “2003 PCPD Scheme”), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the then capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the “2005 PCPD Scheme”) at PCPD’s annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. The 2005 PCPD Scheme was subsequently terminated on May 6, 2015 following the approval by the shareholders of PCPD at the annual general meeting of PCPD held on the same day to adopt another new share option scheme (the “2015 PCPD Scheme”). The 2015 PCPD Scheme became effective on May 7, 2015, following its approval by the shareholders of the Company. The 2015 PCPD Scheme is valid and effective for a period of 10 years commencing on May 7, 2015. After the termination of both the 2003 PCPD Scheme and the 2005 PCPD Scheme, no further share options will be granted under such schemes, but in all other respects the provisions of such schemes will remain in full force and effect. There is no material difference between the terms of the 2005 PCPD Scheme and the 2015 PCPD Scheme.

Under the 2015 PCPD Scheme, save as disclosed in the Report of the Directors, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated therein. The exercise price of the options under the 2015 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the shares of PCPD as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of PCPD as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade shares of PCPD on the Stock Exchange. The overall limit on the number of shares of PCPD which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 PCPD Scheme and any other share option schemes of PCPD must not exceed 30% of the shares of PCPD in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2015 PCPD Scheme shall not (when aggregated with any shares of PCPD subject to any grants made after May 7, 2015 pursuant to any other share option schemes of PCPD) exceed the limit of 10% of the issued share capital of PCPD on May 7, 2015 (or some other date if renewal of this limit is approved by the shareholders of PCPD). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2015 PCPD Scheme is the total number of shares of PCPD issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of PCPD in issue at the relevant time. Any further grant of share options in excess of this limit is subject to approval of the shareholders of PCPD at a general meeting.

No share options have been granted under the 2005 PCPD Scheme and the 2015 PCPD Scheme during the years ended December 31, 2014 and 2015 and no share options were outstanding as at December 31, 2014 and 2015 under such schemes.

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### c. Share option schemes of PCPD (continued)

Details of share options granted by PCPD pursuant to the 2003 PCPD Scheme and the share options outstanding, are as follows:

##### i. Movements in the number of share options outstanding and their related weighted average exercise prices

|                            | 2014<br>Weighted average<br>exercise price<br>HK\$ | Number of<br>options | 2015<br>Weighted average<br>exercise price<br>HK\$ | Number of<br>options |
|----------------------------|----------------------------------------------------|----------------------|----------------------------------------------------|----------------------|
| Beginning of year          | 2.375                                              | 5,000,000            | N/A                                                | –                    |
| Exercised (note ii)        | 2.375                                              | (5,000,000)          | N/A                                                | –                    |
| End of year                | N/A                                                | –                    | N/A                                                | –                    |
| Exercisable at end of year | N/A                                                | –                    | N/A                                                | –                    |

##### ii. Details of share options exercised during the year

|                  | 2014                      |                                                       |                                      | 2015                 |                                      |                      |
|------------------|---------------------------|-------------------------------------------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|
| Date of exercise | Exercise<br>price<br>HK\$ | Market value<br>per share at<br>exercise date<br>HK\$ | Proceeds<br>received<br>HK\$ million | Number of<br>options | Proceeds<br>received<br>HK\$ million | Number of<br>options |
| October 14, 2014 | 2.375                     | 3.56                                                  | 12                                   | 5,000,000            | –                                    | –                    |
|                  |                           |                                                       | 12                                   | 5,000,000            | –                                    | –                    |

#### d. Equity compensation benefit of HKT Trust and HKT

##### i. Share Stapled Units option scheme of HKT Trust and HKT

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

- (i) The purpose of the HKT 2011-2021 Option Scheme is to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to the eligible participants as incentives or rewards for their contribution to the growth of the HKT Group and to provide the HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.
- (ii) Eligible participants include (a) any full time or part time employee of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of HKT and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any of its subsidiaries. HKT Management Limited is not an eligible participant under the HKT 2011-2021 Option Scheme.

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### d. Equity compensation benefit of HKT Trust and HKT (continued)

##### i. Share Stapled Units option scheme of HKT Trust and HKT (continued)

- (iii) (1) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the options may result in the Company ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).
- (2) Subject to the further limitation in (1) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.
- (3) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 2011-2021 Option Scheme if this will result in such limit being exceeded.
- (iv) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of HKT, or any of their respective associates) under the HKT 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the HKT 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of HKT, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK\$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.
- (v) The HKT 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the HKT 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the HKT Board, provided that such terms and conditions shall not be inconsistent with the HKT 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.
- (vi) Upon acceptance of the offer, the grantee shall pay HK\$1.00 to HKT by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price for grants requiring approval of holders of Share Stapled Units in accordance with the provisions of the HKT 2011-2021 Option Scheme.
- (vii) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (1) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (2) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (3) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.
- (viii) Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the HKT Board and the Trustee-Manager Board, the HKT 2011-2021 Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date, after which period no further options shall be granted but the provisions of the HKT 2011-2021 Option Scheme shall remain in full force and effect in all other respects.

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

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### d. Equity compensation benefit of HKT Trust and HKT (continued)

##### ii. Share Stapled Units award schemes of HKT

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

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

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

Pursuant to the scheme rules, no sum of money shall be set aside and no Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the HKT Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Share Stapled Units administered under the respective schemes would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, excluding the Share Stapled Units which have been transferred to eligible participants on vesting. In addition, under the HKT Share Stapled Units Subscription Scheme, no sum of money shall be set aside and no Share Stapled Units shall be subscribed nor any amounts paid to the HKT Trustee for the purpose of making such a subscription if:

- (i) as a result of such subscription, the Company's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the HKT 2011-2021 Option Scheme, and all other rights or entitlements granted by HKT concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or
- (ii) HKT does not have a relevant general mandate or specific mandate from holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### d. Equity compensation benefit of HKT Trust and HKT (continued)

##### ii. Share Stapled Units award schemes of HKT (continued)

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

No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2015.

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

|                                                                                                                                      | Number of Share Stapled Units |             |
|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------|
|                                                                                                                                      | 2014                          | 2015        |
| Beginning of year                                                                                                                    | 7,360,797                     | 5,978,109   |
| Purchase from market by the HKT Trustee at weighted average market price of HK\$9.92<br>(2014: HK\$9.05) per Share Stapled Unit      | 190,000                       | 9,326,000   |
| Purchase under the rights issue of the HKT Trust and HKT by the HKT Trustee at subscription price of HK\$6.84 per Share Stapled Unit | 1,007,112                     | –           |
| Share Stapled Units vested                                                                                                           | (2,579,800)                   | (5,707,168) |
| End of year                                                                                                                          | 5,978,109                     | 9,596,941   |

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the Share Stapled Units unvested, are as follows:

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

|                         | 2014                                                  |                               | 2015                                                  |                               |
|-------------------------|-------------------------------------------------------|-------------------------------|-------------------------------------------------------|-------------------------------|
|                         | Weighted average fair value on the date of award HK\$ | Number of Share Stapled Units | Weighted average fair value on the date of award HK\$ | Number of Share Stapled Units |
| Beginning of year       | 7.27                                                  | 2,955,982                     | 8.89                                                  | 12,995,117                    |
| Awarded (note (iii))    | 9.03                                                  | 12,962,935                    | 10.30                                                 | 1,572,820                     |
| Forfeited (note (iv))   | 8.99                                                  | (344,000)                     | 9.16                                                  | (705,059)                     |
| Vested (note (v))       | 7.71                                                  | (2,579,800)                   | 8.70                                                  | (5,707,168)                   |
| End of year (note (ii)) | 8.89                                                  | 12,995,117                    | 9.27                                                  | 8,155,710                     |

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### d. Equity compensation benefit of HKT Trust and HKT (continued)

##### ii. Share Stapled Units award schemes of HKT (continued)

(ii) Terms of unvested Share Stapled Units at the end of the reporting period

| Date of award  | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | Number of Share Stapled Units |                  |
|----------------|----------------------------------|-----------------------------------------------|-------------------------------|------------------|
|                |                                  |                                               | 2014                          | 2015             |
| March 21, 2013 | March 21, 2013 to March 21, 2015 | 7.59                                          | 1,169,756                     | –                |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 8.26                                          | 732,874                       | –                |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26                                          | 732,583                       | <b>718,558</b>   |
| July 1, 2014   | July 1, 2014 to April 1, 2015    | 9.13                                          | 3,996,269                     | –                |
| July 1, 2014   | July 1, 2014 to April 1, 2016    | 9.13                                          | 3,182,201                     | <b>2,949,476</b> |
| July 1, 2014   | July 1, 2014 to April 1, 2017    | 9.13                                          | 3,181,434                     | <b>2,948,821</b> |
| April 1, 2015  | April 1, 2015 to April 1, 2016   | 10.20                                         | –                             | <b>1,215</b>     |
| April 1, 2015  | April 1, 2015 to April 1, 2017   | 10.20                                         | –                             | <b>1,215</b>     |
| May 7, 2015    | May 7, 2015 to May 7, 2016       | 10.30                                         | –                             | <b>768,644</b>   |
| May 7, 2015    | May 7, 2015 to May 7, 2017       | 10.30                                         | –                             | <b>767,781</b>   |
|                |                                  |                                               | 12,995,117                    | <b>8,155,710</b> |

The Share Stapled Units unvested at December 31, 2015 had a weighted average remaining vesting period of 0.73 years (2014: 1.04 years).

(iii) Details of Share Stapled Units awarded during the year

| Date of award  | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | Number of Share Stapled Units |                  |
|----------------|----------------------------------|-----------------------------------------------|-------------------------------|------------------|
|                |                                  |                                               | 2014                          | 2015             |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 8.26                                          | 741,687                       | –                |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26                                          | 741,389                       | –                |
| July 1, 2014   | July 1, 2014 to July 1, 2014     | 9.13                                          | 814,068                       | –                |
| July 1, 2014   | July 1, 2014 to April 1, 2015    | 9.13                                          | 4,098,245                     | –                |
| July 1, 2014   | July 1, 2014 to April 1, 2016    | 9.13                                          | 3,284,177                     | –                |
| July 1, 2014   | July 1, 2014 to April 1, 2017    | 9.13                                          | 3,283,369                     | –                |
| April 1, 2015  | April 1, 2015 to April 1, 2015   | 10.20                                         | –                             | <b>2,074</b>     |
| April 1, 2015  | April 1, 2015 to April 1, 2016   | 10.20                                         | –                             | <b>2,070</b>     |
| April 1, 2015  | April 1, 2015 to April 1, 2017   | 10.20                                         | –                             | <b>2,070</b>     |
| May 7, 2015    | May 7, 2015 to May 7, 2016       | 10.30                                         | –                             | <b>783,750</b>   |
| May 7, 2015    | May 7, 2015 to May 7, 2017       | 10.30                                         | –                             | <b>782,856</b>   |
|                |                                  |                                               | 12,962,935                    | <b>1,572,820</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### d. Equity compensation benefit of HKT Trust and HKT (continued)

#### ii. Share Stapled Units award schemes of HKT (continued)

(iv) Details of Share Stapled Units forfeited during the year

| Date of award  | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | Number of Share Stapled Units |         |
|----------------|----------------------------------|-----------------------------------------------|-------------------------------|---------|
|                |                                  |                                               | 2014                          | 2015    |
| March 21, 2013 | March 21, 2013 to March 21, 2014 | 7.59                                          | 6,647                         | –       |
| March 21, 2013 | March 21, 2013 to March 21, 2015 | 7.59                                          | 13,847                        | 1,760   |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 8.26                                          | 8,813                         | 4,041   |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26                                          | 8,806                         | 14,025  |
| July 1, 2014   | July 1, 2014 to April 1, 2015    | 9.13                                          | 101,976                       | 188,004 |
| July 1, 2014   | July 1, 2014 to April 1, 2016    | 9.13                                          | 101,976                       | 232,725 |
| July 1, 2014   | July 1, 2014 to April 1, 2017    | 9.13                                          | 101,935                       | 232,613 |
| April 1, 2015  | April 1, 2015 to April 1, 2016   | 10.20                                         | –                             | 855     |
| April 1, 2015  | April 1, 2015 to April 1, 2017   | 10.20                                         | –                             | 855     |
| May 7, 2015    | May 7, 2015 to May 7, 2016       | 10.30                                         | –                             | 15,106  |
| May 7, 2015    | May 7, 2015 to May 7, 2017       | 10.30                                         | –                             | 15,075  |
|                |                                  |                                               | 344,000                       | 705,059 |

(v) Details of Share Stapled Units vested during the year

| Date of award  | Vesting period                   | Fair value<br>on the date<br>of award<br>HK\$ | Number of Share Stapled Units |           |
|----------------|----------------------------------|-----------------------------------------------|-------------------------------|-----------|
|                |                                  |                                               | 2014                          | 2015      |
| April 11, 2012 | April 11, 2012 to April 11, 2014 | 5.98                                          | 588,460                       | –         |
| March 21, 2013 | March 21, 2013 to March 21, 2014 | 7.59                                          | 1,177,272                     | –         |
| March 21, 2013 | March 21, 2013 to March 21, 2015 | 7.59                                          | –                             | 1,167,996 |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 8.26                                          | –                             | 728,833   |
| July 1, 2014   | July 1, 2014 to July 1, 2014     | 9.13                                          | 814,068                       | –         |
| July 1, 2014   | July 1, 2014 to April 1, 2015    | 9.13                                          | –                             | 3,808,265 |
| April 1, 2015  | April 1, 2015 to April 1, 2015   | 10.20                                         | –                             | 2,074     |
|                |                                  |                                               | 2,579,800                     | 5,707,168 |

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

During the year, share-based compensation expenses in respect of the Share Stapled Units of HK\$48 million (2014: HK\$59 million) are recognized in the consolidated income statement, HK\$30 million (2014: HK\$37 million) are recognized in the employee share-based compensation reserve and HK\$18 million (2014: HK\$22 million) are recognized in the non-controlling interests.

### 31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

#### e. Share-based payment transactions with cash alternatives

- i. On May 23, 2013, the PCPD Group entered into a supporting agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the “Supporter”) under which the PCPD Group will settle part of the supporting services received for the value of US\$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388% (subject to downward adjustments) of the share capital in an indirect wholly-owned subsidiary of PCPD (“Melati”) (the “Supporter Shares”) and by assignment of the shareholder’s loan to Melati (the “Supporter Shareholder’s Loans”).

In addition, the PCPD Group granted to the Supporter a right (but not an obligation) to require the PCPD Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder’s Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder’s Loans (the “Supporter Put Option”). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder’s Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder’s Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US\$1.

A financial liability would be recognized in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. Management considered that the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2015, therefore the fair value of the Supporter Shares is nil (2014: nil).

- ii. On May 23, 2013, the PCPD Group entered into an investor subscription agreement and an investor loan purchase agreement with an independent third party (the “Investor”), the PCPD Group will allot to the Investor 9.99% shares of an indirect wholly-owned subsidiary of PCPD (“Rafflesia”) (the “Investor Shares”) and assign to the Investor 9.99% of all the unsecured and non-interest bearing shareholder’s loan to Rafflesia (the “Investor Shareholder’s Loans”) at the time when the occupation permit of the Premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99% of the PCPD Group’s Indonesian development project at a consideration of an amount which represents the same percentage (9.99%) of the total investment cost incurred by the PCPD Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the PCPD Group granted to the Investor a right (but not an obligation) to require the PCPD Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder’s Loans (the “Investor Put Option”). The Investor Put Option enables a structure which allows the Investor to realize its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, the Investor Shareholder’s Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder’s Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US\$1.

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2015, therefore the fair value of the Investor Shares is nil (2014: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 32 RESERVES

| In HK\$ million                                                                                            | 2014          |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
|------------------------------------------------------------------------------------------------------------|---------------|------------------------------------|----------------------------|----------------|-------------------------------------------|------------------------------|-----------------|---------------------------------------------|----------------|----------------------------------------|---------|
|                                                                                                            | Share premium | Special capital reserve (note (a)) | Capital redemption reserve | Treasury stock | Employee share-based compensation reserve | Currency translation reserve | Hedging reserve | Available-for-sale financial assets reserve | Other reserves | (Accumulated losses)/ Retained profits | Total   |
| <b>THE GROUP</b>                                                                                           |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| At January 1, 2014                                                                                         | 9,143         | 5,947                              | 3                          | (74)           | 60                                        | 921                          | 97              | 327                                         | (31)           | (9,024)                                | 7,369   |
| Total comprehensive income/(loss) for the year                                                             |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| Profit for the year                                                                                        | –             | –                                  | –                          | –              | –                                         | –                            | –               | –                                           | –              | 3,310                                  | 3,310   |
| Other comprehensive income/(loss)                                                                          |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| Items that will not be reclassified subsequently to income statement:                                      |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| Remeasurements of defined benefit obligations                                                              | –             | –                                  | –                          | –              | –                                         | –                            | –               | –                                           | –              | (15)                                   | (15)    |
| Share of other comprehensive loss of an associate                                                          | –             | –                                  | –                          | –              | –                                         | –                            | –               | –                                           | –              | (1)                                    | (1)     |
| Items that have been reclassified or may be reclassified subsequently to income statement:                 |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| Exchange differences on translating foreign operations                                                     | –             | –                                  | –                          | –              | –                                         | (320)                        | –               | –                                           | –              | –                                      | (320)   |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal | –             | –                                  | –                          | –              | –                                         | (1,206)                      | –               | –                                           | –              | –                                      | (1,206) |
| Available-for-sale financial assets:                                                                       |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| – changes in fair value                                                                                    | –             | –                                  | –                          | –              | –                                         | –                            | –               | (47)                                        | –              | –                                      | (47)    |
| – transfer to income statement on disposal                                                                 | –             | –                                  | –                          | –              | –                                         | –                            | –               | (1)                                         | –              | –                                      | (1)     |
| Cash flow hedges:                                                                                          |               |                                    |                            |                |                                           |                              |                 |                                             |                |                                        |         |
| – effective portion of changes in fair value                                                               | –             | –                                  | –                          | –              | –                                         | –                            | 17              | –                                           | –              | –                                      | 17      |
| – transfer from equity to income statement                                                                 | –             | –                                  | –                          | –              | –                                         | –                            | 5               | –                                           | –              | –                                      | 5       |
| Total comprehensive income/(loss) for the year                                                             | –             | –                                  | –                          | –              | –                                         | (1,526)                      | 22              | (48)                                        | –              | 3,294                                  | 1,742   |

### 32 RESERVES (CONTINUED)

| In HK\$ million                                                                             | 2014          |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
|---------------------------------------------------------------------------------------------|---------------|---------------------------------------|----------------------------|----------------|-------------------------------------------|------------------------------|-----------------|---------------------------------------------|----------------|----------------------------------------|----------|
|                                                                                             | Share premium | Special capital reserve<br>(note (a)) | Capital redemption reserve | Treasury stock | Employee share-based compensation reserve | Currency translation reserve | Hedging reserve | Available-for-sale financial assets reserve | Other reserves | (Accumulated losses)/ Retained profits | Total    |
| <b>THE GROUP</b> (continued)                                                                |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| Transactions with equity holders                                                            |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| Purchases of PCCW Shares                                                                    |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| under share award scheme                                                                    | -             | -                                     | -                          | (4)            | -                                         | -                            | -               | -                                           | -              | -                                      | (4)      |
| Purchases of Share Stapled Units                                                            |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| under share award schemes                                                                   | -             | -                                     | -                          | -              | -                                         | -                            | -               | -                                           | -              | (6)                                    | (6)      |
| Employee share-based compensation                                                           | -             | -                                     | -                          | -              | 74                                        | -                            | -               | -                                           | -              | -                                      | 74       |
| Vesting of PCCW Shares and Share Stapled                                                    |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| Units under share award schemes                                                             | -             | -                                     | -                          | 33             | (37)                                      | -                            | -               | -                                           | -              | 5                                      | 1        |
| Distribution for Share Stapled Units granted                                                |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| under share award schemes                                                                   | -             | -                                     | -                          | -              | (3)                                       | -                            | -               | -                                           | -              | -                                      | (3)      |
| Transfer to share capital upon transition                                                   |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| to no-par value regime on                                                                   |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| March 3, 2014 (notes 2(b) & 29)                                                             | (9,143)       | -                                     | (3)                        | -              | -                                         | -                            | -               | -                                           | -              | -                                      | (9,146)  |
| Dividend paid in respect of previous year                                                   | -             | (1,006)                               | -                          | -              | (3)                                       | -                            | -               | -                                           | -              | -                                      | (1,009)  |
| Dividend declared and paid in respect                                                       |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| of the current year                                                                         | -             | (515)                                 | -                          | -              | (2)                                       | -                            | -               | -                                           | -              | -                                      | (517)    |
| Total contributions by and distributions to equity holders                                  | (9,143)       | (1,521)                               | (3)                        | 29             | 29                                        | -                            | -               | -                                           | -              | (1)                                    | (10,610) |
| Change in ownership interests in                                                            |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| a subsidiary without change of control                                                      | -             | -                                     | -                          | -              | -                                         | -                            | -               | -                                           | -              | 24                                     | 24       |
| Exercise of employee share options                                                          |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| of a subsidiary                                                                             | -             | -                                     | -                          | -              | -                                         | -                            | -               | -                                           | -              | (6)                                    | (6)      |
| Transaction costs in relation to the                                                        |               |                                       |                            |                |                                           |                              |                 |                                             |                |                                        |          |
| issuance of Share Stapled Units                                                             | -             | -                                     | -                          | -              | -                                         | -                            | -               | -                                           | (82)           | -                                      | (82)     |
| Total change in ownership interests in subsidiaries that do not result in a loss of control | -             | -                                     | -                          | -              | -                                         | -                            | -               | -                                           | (82)           | 18                                     | (64)     |
| Total transactions with equity holders                                                      | (9,143)       | (1,521)                               | (3)                        | 29             | 29                                        | -                            | -               | -                                           | (82)           | 17                                     | (10,674) |
| At December 31, 2014                                                                        | -             | 4,426                                 | -                          | (45)           | 89                                        | (605)                        | 119             | 279                                         | (113)          | (5,713)                                | (1,563)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 32 RESERVES (CONTINUED)

| In HK\$ million                                                                                           | Share<br>premium | Special<br>capital<br>reserve<br>(note (a)) | Capital<br>redemption<br>reserve | 2014<br>Employee<br>share-based<br>compensation<br>reserve | Hedging<br>reserve | Retained<br>profits | Total    |
|-----------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------|----------------------------------|------------------------------------------------------------|--------------------|---------------------|----------|
| <b>THE COMPANY</b>                                                                                        |                  |                                             |                                  |                                                            |                    |                     |          |
| At January 1, 2014                                                                                        | 9,143            | 5,941                                       | 3                                | 20                                                         | (13)               | 9,933               | 25,027   |
| Total comprehensive income<br>for the year                                                                |                  |                                             |                                  |                                                            |                    |                     |          |
| Profit for the year                                                                                       | –                | –                                           | –                                | –                                                          | –                  | 3,564               | 3,564    |
| Other comprehensive income                                                                                |                  |                                             |                                  |                                                            |                    |                     |          |
| Items that have been reclassified<br>or may be reclassified<br>subsequently to income<br>statement:       |                  |                                             |                                  |                                                            |                    |                     |          |
| Cash flow hedges:                                                                                         |                  |                                             |                                  |                                                            |                    |                     |          |
| – effective portion of changes<br>in fair value                                                           | –                | –                                           | –                                | –                                                          | 29                 | –                   | 29       |
| Total comprehensive income for the year                                                                   | –                | –                                           | –                                | –                                                          | 29                 | 3,564               | 3,593    |
| Transactions with equity holders                                                                          |                  |                                             |                                  |                                                            |                    |                     |          |
| Transfer to share capital upon<br>transition to no-par value regime on<br>March 3, 2014 (notes 2(b) & 29) | (9,143)          | –                                           | (3)                              | –                                                          | –                  | –                   | (9,146)  |
| Dividend paid in respect of<br>previous year                                                              | –                | (1,009)                                     | –                                | –                                                          | –                  | –                   | (1,009)  |
| Dividend declared and paid in<br>respect of the current year                                              | –                | (517)                                       | –                                | –                                                          | –                  | –                   | (517)    |
| Total transactions with equity holders                                                                    | (9,143)          | (1,526)                                     | (3)                              | –                                                          | –                  | –                   | (10,672) |
| At December 31, 2014                                                                                      | –                | 4,415                                       | –                                | 20                                                         | 16                 | 13,497              | 17,948   |

## 32 RESERVES (CONTINUED)

In HK\$ million

|                                                                                               | 2015                                        |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
|-----------------------------------------------------------------------------------------------|---------------------------------------------|-------------------|----------------------------------------------------|------------------------------------|--------------------|----------------------------------------------------|-------------------|-------------------------------------------------|---------|
|                                                                                               | Special<br>capital<br>reserve<br>(note (a)) | Treasury<br>stock | Employee<br>share-based<br>compensation<br>reserve | Currency<br>translation<br>reserve | Hedging<br>reserve | Available-for-<br>sale financial<br>assets reserve | Other<br>reserves | (Accumulated<br>losses)/<br>Retained<br>profits | Total   |
| <b>THE GROUP</b>                                                                              |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| At January 1, 2015                                                                            | 4,426                                       | (45)              | 89                                                 | (605)                              | 119                | 279                                                | (113)             | (5,713)                                         | (1,563) |
| Total comprehensive income/(loss) for the year                                                |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| Profit for the year                                                                           | -                                           | -                 | -                                                  | -                                  | -                  | -                                                  | -                 | 2,295                                           | 2,295   |
| Other comprehensive income/(loss)                                                             |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| Items that will not be reclassified subsequently<br>to income statement:                      |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| Remeasurements of defined benefit obligations                                                 | -                                           | -                 | -                                                  | -                                  | -                  | -                                                  | -                 | (18)                                            | (18)    |
| Items that have been reclassified or may be<br>reclassified subsequently to income statement: |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| Exchange differences on translating foreign<br>operations                                     | -                                           | -                 | -                                                  | (345)                              | -                  | -                                                  | -                 | -                                               | (345)   |
| Available-for-sale financial assets:                                                          |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| - changes in fair value                                                                       | -                                           | -                 | -                                                  | -                                  | -                  | 10                                                 | -                 | -                                               | 10      |
| - transfer to income statement on disposal                                                    | -                                           | -                 | -                                                  | -                                  | -                  | (1)                                                | -                 | -                                               | (1)     |
| Cash flow hedges:                                                                             |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| - effective portion of changes in fair value                                                  | -                                           | -                 | -                                                  | -                                  | (213)              | -                                                  | -                 | -                                               | (213)   |
| - transfer from equity to income statement                                                    | -                                           | -                 | -                                                  | -                                  | (38)               | -                                                  | -                 | -                                               | (38)    |
| Total comprehensive income/(loss) for the year                                                | -                                           | -                 | -                                                  | (345)                              | (251)              | 9                                                  | -                 | 2,277                                           | 1,690   |
| Transactions with equity holders                                                              |                                             |                   |                                                    |                                    |                    |                                                    |                   |                                                 |         |
| Purchases of PCCW Shares<br>under share award scheme                                          | -                                           | (29)              | -                                                  | -                                  | -                  | -                                                  | -                 | -                                               | (29)    |
| Purchases of Share Stapled Units<br>under share award schemes                                 | -                                           | -                 | -                                                  | -                                  | -                  | -                                                  | -                 | (57)                                            | (57)    |
| Employee share-based compensation                                                             | -                                           | -                 | 69                                                 | -                                  | -                  | -                                                  | -                 | -                                               | 69      |
| Vesting of PCCW Shares and Share Stapled Units<br>under share award schemes                   | -                                           | 39                | (69)                                               | -                                  | -                  | -                                                  | -                 | 28                                              | (2)     |
| Distribution for Share Stapled Units granted<br>under share award schemes                     | -                                           | -                 | (2)                                                | -                                  | -                  | -                                                  | -                 | (1)                                             | (3)     |
| Dividend paid in respect of previous year                                                     | (983)                                       | -                 | (2)                                                | -                                  | -                  | -                                                  | -                 | -                                               | (985)   |
| Dividend declared and paid in respect<br>of the current year                                  | (599)                                       | -                 | (2)                                                | -                                  | -                  | -                                                  | -                 | -                                               | (601)   |
| Total transactions with equity holders                                                        | (1,582)                                     | 10                | (6)                                                | -                                  | -                  | -                                                  | -                 | (30)                                            | (1,608) |
| At December 31, 2015                                                                          | 2,844                                       | (35)              | 83                                                 | (950)                              | (132)              | 288                                                | (113)             | (3,466)                                         | (1,481) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

### 32 RESERVES (CONTINUED)

| In HK\$ million                                                                                  | 2015                                        |                                                    |                    |                     |         |
|--------------------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------|--------------------|---------------------|---------|
|                                                                                                  | Special<br>capital<br>reserve<br>(note (a)) | Employee<br>share-based<br>compensation<br>reserve | Hedging<br>reserve | Retained<br>profits | Total   |
| <b>THE COMPANY</b>                                                                               |                                             |                                                    |                    |                     |         |
| At January 1, 2015                                                                               | 4,415                                       | 20                                                 | 16                 | 13,497              | 17,948  |
| Total comprehensive income/(loss)<br>for the year                                                |                                             |                                                    |                    |                     |         |
| Profit for the year                                                                              | –                                           | –                                                  | –                  | 2,134               | 2,134   |
| Other comprehensive loss                                                                         |                                             |                                                    |                    |                     |         |
| Items that have been reclassified<br>or may be reclassified subsequently<br>to income statement: |                                             |                                                    |                    |                     |         |
| Cash flow hedges:                                                                                |                                             |                                                    |                    |                     |         |
| – effective portion of changes<br>in fair value                                                  | –                                           | –                                                  | (48)               | –                   | (48)    |
| Total comprehensive (loss)/income<br>for the year                                                | –                                           | –                                                  | (48)               | 2,134               | 2,086   |
| Transactions with equity holders                                                                 |                                             |                                                    |                    |                     |         |
| Dividend paid in respect of previous year                                                        | (985)                                       | –                                                  | –                  | –                   | (985)   |
| Dividend declared and paid in respect<br>of the current year                                     | (601)                                       | –                                                  | –                  | –                   | (601)   |
| Total transactions with equity holders                                                           | (1,586)                                     | –                                                  | –                  | –                   | (1,586) |
| At December 31, 2015                                                                             | 2,829                                       | 20                                                 | (32)               | 15,631              | 18,448  |

### 32 RESERVES (CONTINUED)

a. The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

On January 10, 2006, the High Court of Hong Kong (the “High Court”) made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US\$544 million (approximately HK\$4,243 million) and HK\$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the capital reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US\$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2015, there was no cash (2014: nil) set aside and recorded under “Restricted cash” in the statement of financial position of the Company in this regard. Accordingly, as at December 31, 2015, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK\$2,829 million (2014: HK\$4,415 million). Inclusive of retained profits of HK\$15,631 million (2014: HK\$13,497 million), the Company has total distributable reserves of HK\$18,460 million as at December 31, 2015 (2014: HK\$17,912 million).

### 33 DEFERRED INCOME TAX

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

| In HK\$ million                                                           | 2014                                          |                                                                 |                           |            |        |         |
|---------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|---------------------------|------------|--------|---------|
|                                                                           | Accelerated tax depreciation and amortization | Valuation adjustment resulting from acquisition of subsidiaries | Revaluation of properties | Tax losses | Others | Total   |
| Beginning of year                                                         | 1,974                                         | 164                                                             | 547                       | (1,114)    | 9      | 1,580   |
| Charged/(Credited) to consolidated income statement ( <i>note 12(a)</i> ) | (3)                                           | (19)                                                            | 163                       | (15)       | (5)    | 121     |
| Additions upon business combinations                                      | 921                                           | –                                                               | –                         | –          | –      | 921     |
| Disposal of interests in subsidiaries ( <i>note 42</i> )                  | (480)                                         | –                                                               | (705)                     | –          | 19     | (1,166) |
| Exchange differences                                                      | (6)                                           | –                                                               | (6)                       | –          | (2)    | (14)    |
| End of year                                                               | 2,406                                         | 145                                                             | (1)                       | (1,129)    | 21     | 1,442   |

  

| In HK\$ million                                                           | 2015                                          |                                                                 |                           |            |        |       |
|---------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|---------------------------|------------|--------|-------|
|                                                                           | Accelerated tax depreciation and amortization | Valuation adjustment resulting from acquisition of subsidiaries | Revaluation of properties | Tax losses | Others | Total |
| Beginning of year                                                         | 2,406                                         | 145                                                             | (1)                       | (1,129)    | 21     | 1,442 |
| Charged/(Credited) to consolidated income statement ( <i>note 12(a)</i> ) | 133                                           | (31)                                                            | –                         | (9)        | (13)   | 80    |
| Additions upon business combinations                                      | –                                             | 194                                                             | –                         | (8)        | –      | 186   |
| Exchange differences                                                      | –                                             | –                                                               | –                         | 1          | –      | 1     |
| End of year                                                               | 2,539                                         | 308                                                             | (1)                       | (1,145)    | 8      | 1,709 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 33 DEFERRED INCOME TAX (CONTINUED)

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

| In HK\$ million                                                                                    | 2014    | 2015    |
|----------------------------------------------------------------------------------------------------|---------|---------|
| Deferred income tax assets:                                                                        |         |         |
| Deferred income tax assets to be recovered after more than 12 months                               | (878)   | (849)   |
| Deferred income tax assets to be recovered within 12 months                                        | (181)   | (217)   |
| Net deferred income tax assets recognized in the consolidated statement of financial position      | (1,059) | (1,066) |
| Deferred income tax liabilities:                                                                   |         |         |
| Deferred income tax liabilities to be recovered after more than 12 months                          | 2,279   | 2,473   |
| Deferred income tax liabilities to be recovered within 12 months                                   | 222     | 302     |
| Net deferred income tax liabilities recognized in the consolidated statement of financial position | 2,501   | 2,775   |
|                                                                                                    | 1,442   | 1,709   |

b. Deferred income tax assets had 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, 2015, the Group had unutilized estimated tax losses for which no deferred income tax assets had been recognized of HK\$8,925 million (2014: HK\$9,927 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$53 million (2014: HK\$35 million) and HK\$969 million (2014: HK\$980 million) will expire within 1 to 5 years and after 5 years from December 31, 2015 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

### 34 CARRIER LICENCE FEE LIABILITIES

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

| In HK\$ million                                                          | Present value of the minimum annual fees | 2014 Interest expense relating to future periods | Total minimum annual fees | Present value of the minimum annual fees | 2015 Interest expense relating to future periods | Total minimum annual fees |
|--------------------------------------------------------------------------|------------------------------------------|--------------------------------------------------|---------------------------|------------------------------------------|--------------------------------------------------|---------------------------|
| Payable within a period                                                  |                                          |                                                  |                           |                                          |                                                  |                           |
| – not exceeding one year                                                 | 429                                      | 32                                               | 461                       | 448                                      | 34                                               | 482                       |
| – over one year, but not exceeding two years                             | 370                                      | 74                                               | 444                       | 123                                      | 19                                               | 142                       |
| – over two years, but not exceeding five years                           | 307                                      | 117                                              | 424                       | 312                                      | 112                                              | 424                       |
| – over five years                                                        | 272                                      | 171                                              | 443                       | 192                                      | 100                                              | 292                       |
|                                                                          | 1,378                                    | 394                                              | 1,772                     | 1,075                                    | 265                                              | 1,340                     |
| Less: Amounts payable within one year included under current liabilities | (429)                                    | (32)                                             | (461)                     | (448)                                    | (34)                                             | (482)                     |
|                                                                          | 949                                      | 362                                              | 1,311                     | 627                                      | 231                                              | 858                       |

### 35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| In HK\$ million                                                                                          | 2014          | 2015          |
|----------------------------------------------------------------------------------------------------------|---------------|---------------|
| Profit before income tax                                                                                 | 5,474         | 4,440         |
| Adjustment for:                                                                                          |               |               |
| Provision for inventory obsolescence                                                                     | 10            | 10            |
| Interest income                                                                                          | (90)          | (87)          |
| Finance costs                                                                                            | 1,419         | 1,583         |
| Cash flow hedges: transferred from equity                                                                | 1             | 1             |
| Fair value hedges: changes in fair value                                                                 | (2)           | (4)           |
| Impact of re-designation of fair value hedges                                                            | –             | 16            |
| Cash flow hedges: changes in fair value                                                                  | –             | 38            |
| Depreciation of property, plant and equipment                                                            | 3,408         | 2,141         |
| Gain on disposal of subsidiaries                                                                         | (2,112)       | –             |
| Gain on disposal of an associate                                                                         | –             | (75)          |
| Gain on remeasuring an available-for-sale investment upon a step acquisition                             | –             | (29)          |
| Fair value (gains)/losses on investment properties                                                       | (656)         | 4             |
| Net gains on cash flow hedging instruments transferred from equity                                       | (2)           | (56)          |
| Net gains on fair value hedging instruments                                                              | (47)          | (48)          |
| Fair value loss on derivative financial instrument                                                       | –             | 2             |
| Net gains from return of investment in available-for-sale financial assets                               | (33)          | –             |
| Net realized gains on disposal of available-for-sale financial assets                                    | (1)           | (32)          |
| Provision for impairment of an interest in an associate                                                  | 52            | 95            |
| Provision for impairment of an interest in a joint venture                                               | –             | 5             |
| Provision for impairment of available-for-sale financial assets                                          | 12            | 2             |
| Provision for impairment of property held for development                                                | 84            | –             |
| Gain on disposal of other non-current assets                                                             | –             | (2)           |
| Loss on disposal of property, plant and equipment and intangible assets, net                             | 2             | 3             |
| Impairment loss for doubtful debts                                                                       | 187           | 312           |
| Amortization of intangible assets                                                                        | 2,873         | 3,897         |
| Amortization of land lease premium – interests in leasehold land                                         | 22            | 22            |
| Share of results of associates and joint ventures                                                        | (50)          | (37)          |
| Increase in treasury stock for the purchases of PCCW Shares under share award scheme                     | (4)           | (29)          |
| Decrease in equity for the purchases of Share Stapled Units under share award schemes                    | (6)           | (57)          |
| Decrease in non-controlling interests for the purchases of Share Stapled Units under share award schemes | (3)           | (37)          |
| Share-based compensation expenses                                                                        | 96            | 87            |
| Pension cost for defined benefit retirement schemes                                                      | 7             | 2             |
| (Increase)/Decrease in operating assets                                                                  |               |               |
| – properties held for/under development                                                                  | (8)           | (12)          |
| – sales proceeds held in stakeholders' accounts                                                          | 13            | 15            |
| – restricted cash                                                                                        | 5             | 916           |
| – prepayments, deposits and other current assets                                                         | (450)         | (617)         |
| – inventories                                                                                            | 473           | 18            |
| – amounts due from related companies                                                                     | 20            | 56            |
| – trade receivables                                                                                      | (286)         | 289           |
| – other non-current assets                                                                               | (35)          | (35)          |
| Increase/(Decrease) in operating liabilities                                                             |               |               |
| – trade payables, accruals and other payables and deferred income                                        | 493           | 332           |
| – amount payable to the Government under the Cyberport Project Agreement                                 | 1             | (200)         |
| – amounts due to related companies                                                                       | (28)          | (47)          |
| – advances from customers                                                                                | (219)         | 2             |
| – defined benefit liability                                                                              | –             | (3)           |
| – other long-term liabilities                                                                            | 46            | 33            |
| <b>CASH GENERATED FROM OPERATIONS</b>                                                                    | <b>10,666</b> | <b>12,914</b> |
| Interest received                                                                                        | 57            | 36            |
| Income tax paid, net of tax refund                                                                       |               |               |
| – Hong Kong profits tax paid                                                                             | (84)          | (372)         |
| – overseas profits tax paid                                                                              | (86)          | (60)          |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                                                      | <b>10,553</b> | <b>12,518</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

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

#### b. Business combinations

| In HK\$ million                                                                                                                     | 2014     | 2015    |
|-------------------------------------------------------------------------------------------------------------------------------------|----------|---------|
| Net assets acquired:                                                                                                                |          |         |
| Property, plant and equipment                                                                                                       | 1,993    | 70      |
| Intangible assets                                                                                                                   | 6,391    | 498     |
| Deferred income tax assets                                                                                                          | –        | 8       |
| Interest in a joint venture                                                                                                         | 14       | –       |
| Prepayments, deposits, trade receivables, net and other current and non-current assets                                              | 1,574    | 93      |
| Defined benefit assets                                                                                                              | 26       | –       |
| Inventories                                                                                                                         | 202      | –       |
| Cash and cash equivalents                                                                                                           | 1,186    | 68      |
| Short-term borrowings                                                                                                               | –        | (23)    |
| Trade payables, accruals, other payables and carrier licence fee liabilities (current and non-current)                              | (3,033)  | (84)    |
| Advances from customers                                                                                                             | (622)    | (11)    |
| Deferred income                                                                                                                     | (64)     | –       |
| Current income tax liabilities                                                                                                      | (308)    | (6)     |
| Long-term borrowings                                                                                                                | –        | (10)    |
| Deferred income tax liabilities                                                                                                     | (921)    | (194)   |
|                                                                                                                                     | 6,438    | 409     |
| Non-controlling interests                                                                                                           | (36)     | (19)    |
|                                                                                                                                     | 6,402    | 390     |
| Goodwill on acquisitions                                                                                                            | 13,627   | 1,094   |
| Purchase consideration                                                                                                              | 20,029   | 1,484   |
| Satisfied by:                                                                                                                       |          |         |
| Cash                                                                                                                                | 19,955   | 1,283   |
| Settlement of obligation assumed upon business combinations                                                                         | –        | 26      |
| Fair value of equity interests in the Vuclip Group (as defined in note 41(a)(i)) at the date when control was obtained by the Group | –        | 107     |
| Consideration payable                                                                                                               | 74       | 68      |
|                                                                                                                                     | 20,029   | 1,484   |
| Analysis of the net outflow of cash and cash equivalents in respect of business combinations:                                       |          |         |
| Purchase consideration settled in cash                                                                                              | (19,955) | (1,283) |
| Settlement of obligation assumed upon business combinations                                                                         | –        | (26)    |
| Cash and cash equivalents of subsidiaries acquired                                                                                  | 1,186    | 68      |
|                                                                                                                                     | (18,769) | (1,241) |
| Settlement of contingent consideration upon business combinations                                                                   | (14)     | (77)    |

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

#### c. Disposal of interests in subsidiaries

During the year ended December 31, 2014, the Group disposed of its equity interests in certain subsidiaries to third parties. The net assets of these disposed subsidiaries at the date of disposal were as follows:

| In HK\$ million                                                                                            | 2014    | 2015  |
|------------------------------------------------------------------------------------------------------------|---------|-------|
| Net assets disposed of:                                                                                    |         |       |
| Property, plant and equipment                                                                              | 67      | –     |
| Investment property                                                                                        | 7,182   | –     |
| Interests in leasehold land                                                                                | 10      | –     |
| Intangible asset                                                                                           | 31      | –     |
| Restricted cash                                                                                            | 5       | –     |
| Prepayments, deposits and other current assets                                                             | 69      | –     |
| Inventories                                                                                                | 117     | –     |
| Trade receivables, net                                                                                     | 238     | –     |
| Cash and cash equivalents                                                                                  | 399     | –     |
| Shareholder loan                                                                                           | (1,983) | –     |
| Trade payables, accruals, other payables and deferred income                                               | (195)   | –     |
| Advance from customers                                                                                     | (177)   | –     |
| Current income tax liabilities                                                                             | (11)    | –     |
| Deferred income tax liabilities                                                                            | (1,166) | –     |
|                                                                                                            | 4,586   | –     |
| Non-controlling interests                                                                                  | (124)   | –     |
|                                                                                                            | 4,462   | –     |
| Consideration received from disposal of subsidiaries, net of tax                                           | 7,492   | –     |
| Assignment of shareholder loan                                                                             | (1,983) | –     |
| Carrying amount of net assets disposed of                                                                  | (4,462) | –     |
| Direct expenses in relation to the disposals                                                               | (259)   | –     |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal | 1,324   | –     |
| Gain on disposal of subsidiaries recognized in the consolidated income statement ( <i>note 8</i> )         | 2,112   | –     |
| Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:        |         |       |
| Consideration settled by cash                                                                              | 7,506   | –     |
| Less: Cash and cash equivalents disposed of                                                                | (399)   | –     |
| Less: Direct expenses and tax in relation to the disposals                                                 | (237)   | (452) |
| Net inflow of cash and cash equivalents in respect of disposal of subsidiaries                             | 6,870   | (452) |

The net cash outflow of HK\$452 million for the year ended December 31, 2015 represents the payment of tax and direct expenses in 2015 in relation to the disposal of Gain Score Group (as defined in note 42(a)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

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

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

| In HK\$ million                              | 2014    | 2015         |
|----------------------------------------------|---------|--------------|
| Cash and bank balances                       | 8,965   | <b>7,608</b> |
| Short-term deposits                          | –       | <b>1</b>     |
| Restricted cash                              | (1,022) | <b>(106)</b> |
| Cash and cash equivalents as at December 31, | 7,943   | <b>7,503</b> |

### 36 CAPITAL MANAGEMENT

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

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises share capital, special capital reserve, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserves.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

### 37 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

| In HK\$ million                                                        | 2014                         |                       |                              |                                     | Total  |
|------------------------------------------------------------------------|------------------------------|-----------------------|------------------------------|-------------------------------------|--------|
|                                                                        | Held-to-maturity investments | Loans and receivables | Derivatives used for hedging | Available-for-sale financial assets |        |
| Non-current assets                                                     |                              |                       |                              |                                     |        |
| Held-to-maturity investments                                           | 1                            | –                     | –                            | –                                   | 1      |
| Available-for-sale financial assets                                    | –                            | –                     | –                            | 754                                 | 754    |
| Other non-current assets                                               | –                            | 271                   | –                            | –                                   | 271    |
|                                                                        | 1                            | 271                   | –                            | 754                                 | 1,026  |
| Current assets                                                         |                              |                       |                              |                                     |        |
| Sale proceeds held in stakeholders' accounts                           | –                            | 528                   | –                            | –                                   | 528    |
| Restricted cash                                                        | –                            | 1,022                 | –                            | –                                   | 1,022  |
| Prepayments, deposits and other current assets (excluding prepayments) | –                            | 5,323                 | –                            | –                                   | 5,323  |
| Amounts due from related companies                                     | –                            | 95                    | –                            | –                                   | 95     |
| Derivative financial instruments                                       | –                            | –                     | 49                           | –                                   | 49     |
| Trade receivables, net                                                 | –                            | 4,497                 | –                            | –                                   | 4,497  |
| Cash and cash equivalents                                              | –                            | 7,943                 | –                            | –                                   | 7,943  |
|                                                                        | –                            | 19,408                | 49                           | –                                   | 19,457 |
| Total                                                                  | 1                            | 19,679                | 49                           | 754                                 | 20,483 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million

|                                                                        | Derivatives<br>used for<br>hedging | 2014<br>Other financial<br>liabilities at<br>amortized cost | Total  |
|------------------------------------------------------------------------|------------------------------------|-------------------------------------------------------------|--------|
| Current liabilities                                                    |                                    |                                                             |        |
| Short-term borrowings                                                  | –                                  | 4,823                                                       | 4,823  |
| Trade payables                                                         | –                                  | 2,331                                                       | 2,331  |
| Accruals and other payables                                            | –                                  | 6,787                                                       | 6,787  |
| Amount payable to the Government under the Cyberport Project Agreement | –                                  | 522                                                         | 522    |
| Carrier licence fee liabilities                                        | –                                  | 429                                                         | 429    |
| Amounts due to related companies                                       | –                                  | 98                                                          | 98     |
|                                                                        | –                                  | 14,990                                                      | 14,990 |
| Non-current liabilities                                                |                                    |                                                             |        |
| Long-term borrowings                                                   | –                                  | 36,494                                                      | 36,494 |
| Derivative financial instruments                                       | 217                                | –                                                           | 217    |
| Carrier licence fee liabilities                                        | –                                  | 949                                                         | 949    |
| Other long-term liabilities                                            | –                                  | 342                                                         | 342    |
|                                                                        | 217                                | 37,785                                                      | 38,002 |
| Total                                                                  | 217                                | 52,775                                                      | 52,992 |

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million

|                                                                           |                          | 2015                                                              |                                               |        |
|---------------------------------------------------------------------------|--------------------------|-------------------------------------------------------------------|-----------------------------------------------|--------|
|                                                                           | Loans and<br>receivables | Financial<br>assets at<br>fair value<br>through<br>profit or loss | Available-<br>for-sale<br>financial<br>assets | Total  |
| Non-current assets                                                        |                          |                                                                   |                                               |        |
| Available-for-sale financial assets                                       | –                        | –                                                                 | 806                                           | 806    |
| Other non-current assets                                                  | 121                      | –                                                                 | –                                             | 121    |
|                                                                           | 121                      | –                                                                 | 806                                           | 927    |
| Current assets                                                            |                          |                                                                   |                                               |        |
| Sale proceeds held in stakeholders' accounts                              | 513                      | –                                                                 | –                                             | 513    |
| Restricted cash                                                           | 106                      | –                                                                 | –                                             | 106    |
| Prepayments, deposits and other current assets<br>(excluding prepayments) | 6,069                    | –                                                                 | –                                             | 6,069  |
| Amounts due from related companies                                        | 90                       | –                                                                 | –                                             | 90     |
| Derivative financial instruments                                          | –                        | 60                                                                | –                                             | 60     |
| Trade receivables, net                                                    | 3,969                    | –                                                                 | –                                             | 3,969  |
| Short-term deposits                                                       | 1                        | –                                                                 | –                                             | 1      |
| Cash and cash equivalents                                                 | 7,503                    | –                                                                 | –                                             | 7,503  |
|                                                                           | 18,251                   | 60                                                                | –                                             | 18,311 |
| Total                                                                     | 18,372                   | 60                                                                | 806                                           | 19,238 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million

|                                                                        | Derivatives<br>used for<br>hedging | 2015<br>Other financial<br>liabilities at<br>amortized cost | Total  |
|------------------------------------------------------------------------|------------------------------------|-------------------------------------------------------------|--------|
| Current liabilities                                                    |                                    |                                                             |        |
| Short-term borrowings                                                  | –                                  | 3,879                                                       | 3,879  |
| Trade payables                                                         | –                                  | 2,494                                                       | 2,494  |
| Accruals and other payables                                            | –                                  | 6,763                                                       | 6,763  |
| Amount payable to the Government under the Cyberport Project Agreement | –                                  | 322                                                         | 322    |
| Carrier licence fee liabilities                                        | –                                  | 448                                                         | 448    |
| Amounts due to related companies                                       | –                                  | 69                                                          | 69     |
|                                                                        | –                                  | 13,975                                                      | 13,975 |
| Non-current liabilities                                                |                                    |                                                             |        |
| Long-term borrowings                                                   | –                                  | 38,090                                                      | 38,090 |
| Derivative financial instruments                                       | 586                                | –                                                           | 586    |
| Carrier licence fee liabilities                                        | –                                  | 627                                                         | 627    |
| Other long-term liabilities                                            | –                                  | 604                                                         | 604    |
|                                                                        | 586                                | 39,321                                                      | 39,907 |
| Total                                                                  | 586                                | 53,296                                                      | 53,882 |

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

## 37 FINANCIAL INSTRUMENTS (CONTINUED)

### a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2014 and 2015, the Group did not have a significant exposure to any individual debtors or counterparties.

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

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2014 and 2015, the amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 39, the Group does not provide any other guarantees which would expose the Group to credit risk.

### b. Liquidity risk

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

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Please refer to note 39 for details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### b. Liquidity risk (continued)

The following tables detail the remaining contractual maturities at the end of the reporting period 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                                                        | 2014                       |                                     |                                      |                   |                                                       | 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 | Total contractual undiscounted cash inflow/ (outflow) |                 |
| Current liabilities                                                    |                            |                                     |                                      |                   |                                                       |                 |
| Short-term borrowings                                                  | (4,951)                    | –                                   | –                                    | –                 | (4,951)                                               | (4,823)         |
| Trade payables                                                         | (2,331)                    | –                                   | –                                    | –                 | (2,331)                                               | (2,331)         |
| Accruals and other payables                                            | (6,787)                    | –                                   | –                                    | –                 | (6,787)                                               | (6,787)         |
| Amount payable to the Government under the Cyberport Project Agreement | (522)                      | –                                   | –                                    | –                 | (522)                                                 | (522)           |
| Carrier licence fee liabilities                                        | (461)                      | –                                   | –                                    | –                 | (461)                                                 | (429)           |
| Amounts due to related companies                                       | (98)                       | –                                   | –                                    | –                 | (98)                                                  | (98)            |
|                                                                        | (15,150)                   | –                                   | –                                    | –                 | (15,150)                                              | (14,990)        |
| Non-current liabilities                                                |                            |                                     |                                      |                   |                                                       |                 |
| Long-term borrowings                                                   | (805)                      | (12,358)                            | (20,259)                             | (6,784)           | (40,206)                                              | (36,494)        |
| Derivative financial instruments                                       | 66                         | 19                                  | (119)                                | (216)             | (250)                                                 | (217)           |
| Carrier licence fee liabilities                                        | –                          | (444)                               | (424)                                | (443)             | (1,311)                                               | (949)           |
| Other long-term liabilities                                            | (29)                       | (13)                                | (233)                                | (157)             | (432)                                                 | (342)           |
|                                                                        | (768)                      | (12,796)                            | (21,035)                             | (7,600)           | (42,199)                                              | (38,002)        |
| Total                                                                  | (15,918)                   | (12,796)                            | (21,035)                             | (7,600)           | (57,349)                                              | (52,992)        |

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### b. Liquidity risk (continued)

In HK\$ million

|                                                                              | 2015                             |                                              |                                               |                      |                                                      |                    |
|------------------------------------------------------------------------------|----------------------------------|----------------------------------------------|-----------------------------------------------|----------------------|------------------------------------------------------|--------------------|
|                                                                              | Within<br>1 year or<br>on demand | More than<br>1 year<br>but within<br>2 years | More than<br>2 years<br>but within<br>5 years | More than<br>5 years | Total<br>contractual<br>undiscounted<br>cash outflow | Carrying<br>amount |
| Current liabilities                                                          |                                  |                                              |                                               |                      |                                                      |                    |
| Short-term borrowings                                                        | (3,907)                          | –                                            | –                                             | –                    | (3,907)                                              | (3,879)            |
| Trade payables                                                               | (2,494)                          | –                                            | –                                             | –                    | (2,494)                                              | (2,494)            |
| Accruals and other payables                                                  | (6,763)                          | –                                            | –                                             | –                    | (6,763)                                              | (6,763)            |
| Amount payable to the Government<br>under the Cyberport Project<br>Agreement | (322)                            | –                                            | –                                             | –                    | (322)                                                | (322)              |
| Carrier licence fee liabilities                                              | (482)                            | –                                            | –                                             | –                    | (482)                                                | (448)              |
| Amounts due to related companies                                             | (69)                             | –                                            | –                                             | –                    | (69)                                                 | (69)               |
|                                                                              | (14,037)                         | –                                            | –                                             | –                    | (14,037)                                             | (13,975)           |
| Non-current liabilities                                                      |                                  |                                              |                                               |                      |                                                      |                    |
| Long-term borrowings                                                         | (778)                            | (4,300)                                      | (22,040)                                      | (19,040)             | (46,158)                                             | (38,090)           |
| Derivative financial instruments<br>(note i)                                 | (21)                             | (33)                                         | (152)                                         | (299)                | (505)                                                | (586)              |
| Carrier licence fee liabilities                                              | –                                | (142)                                        | (424)                                         | (292)                | (858)                                                | (627)              |
| Other long-term liabilities (note ii)                                        | (48)                             | (78)                                         | (226)                                         | (1,088)              | (1,440)                                              | (604)              |
|                                                                              | (847)                            | (4,553)                                      | (22,842)                                      | (20,719)             | (48,961)                                             | (39,907)           |
| Total                                                                        | (14,884)                         | (4,553)                                      | (22,842)                                      | (20,719)             | (62,998)                                             | (53,882)           |

- i. As at December 31, 2015, derivative financial instruments of HK\$22 million (2014: nil) related to two 5 years foreign exchange forward contracts with an aggregate notional contract amount of US\$503 million (approximately HK\$3,887 million), which were designated as cash flow hedges of US\$300 million and US\$100 million zero coupon guaranteed notes due 2030 respectively. The US\$300 million guaranteed notes and the US\$100 million guaranteed notes may be redeemed at the option of the Group on January 15, 2020 and May 20, 2020 at an early redemption amount of approximately US\$376 million and US\$128 million respectively. Please refer to notes 26(d) and 26(g) and note 28(b) for details of the guaranteed notes and the foreign exchange forward contracts respectively.
- ii. As at December 31, 2015, other long-term liabilities included HK\$47 million (2014: nil) of long term interest payable, which related to interest drawn under a 12 years arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amount of Euro200 million (approximately HK\$1,665 million). Please refer to note 26(f) and note 28(b) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

### 37 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, 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 market risk sensitive instruments for trading purposes.

The Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Group, 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 its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

#### i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange 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 entity's functional currency.

The Group's borrowings are denominated in Hong Kong dollar, United States dollar or Euro. As at December 31, 2014 and 2015, majority of the Group's borrowings denominated in United States dollar/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. Cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2015 with an aggregate notional contract amount of US\$1,803 million (approximately HK\$13,970 million) (2014: US\$1,300 million (approximately HK\$10,096 million)) and Euro200 million (approximately HK\$1,665 million) (2014: nil) were designated or re-designated as cash flow hedges and fair value hedges against foreign currency risk.

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

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

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.

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

| In HK\$ million                                                                                                                                             | 2014                    |      |                     | 2015                    |         |                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------|---------------------|-------------------------|---------|---------------------|
|                                                                                                                                                             | United States<br>Dollar | Euro | Chinese<br>Renminbi | United States<br>Dollar | Euro    | Chinese<br>Renminbi |
| Available-for-sale financial assets                                                                                                                         | 650                     | –    | –                   | 782                     | –       | –                   |
| Amounts due from related companies                                                                                                                          | –                       | –    | 13                  | –                       | –       | 13                  |
| Trade receivables                                                                                                                                           | 1,078                   | 54   | 287                 | 1,468                   | 197     | 361                 |
| Cash and cash equivalents                                                                                                                                   | 3,184                   | 63   | 454                 | 1,630                   | 37      | 458                 |
| Trade payables                                                                                                                                              | (975)                   | (59) | (217)               | (1,494)                 | (61)    | (203)               |
| Amounts due to related companies                                                                                                                            | (94)                    | –    | –                   | (74)                    | –       | –                   |
| Short-term borrowings                                                                                                                                       | (3,877)                 | –    | –                   | (3,879)                 | –       | –                   |
| Long-term borrowings                                                                                                                                        | (9,785)                 | –    | –                   | (12,803)                | (1,666) | –                   |
| Gross exposure arising from<br>recognized financial<br>(liabilities)/assets                                                                                 | (9,819)                 | 58   | 537                 | (14,370)                | (1,493) | 629                 |
| Net financial assets denominated<br>in respective entities'<br>functional currencies                                                                        | (809)                   | (47) | (510)               | (927)                   | (52)    | (629)               |
| Borrowings covered by cross<br>currency swap contracts and foreign<br>exchange forward contracts<br>designated as cash flow<br>hedges and fair value hedges | 10,087                  | –    | –                   | 12,803                  | 1,666   | –                   |
| Overall net exposure                                                                                                                                        | (541)                   | 11   | 27                  | (2,494)                 | 121     | –                   |

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

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

As at December 31, 2015, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK\$21 million (2014: HK\$5 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2015 would have been debited/credited by approximately HK\$109 million (2014: HK\$39 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2015, if Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK\$5 million (2014: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2015 would have been debited/credited by approximately HK\$83 million (2014: nil), 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, 2015, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by an immaterial amount (2014: HK\$1 million), mainly as a result of foreign exchange gains/losses on translation of Chinese Renminbi denominated recognized assets and liabilities which are not hedged by hedging instruments.

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

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

##### ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings.

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

##### ii. Interest rate risk (continued)

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

| In HK\$ million, except for %                                                    | 2014                            |        | 2015                            |        |
|----------------------------------------------------------------------------------|---------------------------------|--------|---------------------------------|--------|
|                                                                                  | Effective<br>interest rate<br>% |        | Effective<br>interest rate<br>% |        |
| Fixed rate borrowings:                                                           |                                 |        |                                 |        |
| Short-term borrowings with/without cash flow<br>hedging instruments              | 5.42                            | 3,877  | 3.17                            | 3,879  |
| Long-term borrowings with/without cash flow<br>or fair value hedging instruments | 3.17                            | 3,924  | 4.08                            | 12,275 |
|                                                                                  |                                 | 7,801  |                                 | 16,154 |
| Variable rate borrowings:                                                        |                                 |        |                                 |        |
| Bank borrowings                                                                  | 1.59                            | 27,655 | 1.60                            | 23,621 |
| Long-term borrowings with fair value<br>hedging instruments                      | 4.70                            | 5,861  | 5.04                            | 2,194  |
|                                                                                  |                                 | 33,516 |                                 | 25,815 |
| Total borrowings                                                                 |                                 | 41,317 |                                 | 41,969 |

**37 FINANCIAL INSTRUMENTS (CONTINUED)****c. Market risk (continued)****ii. Interest rate risk (continued)**

At December 31, 2015, if interest rates on variable rate borrowings had been increased/decreased by 20 basis points (2014: 10 basis points), with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK\$35 million (2014: HK\$23 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at that date. The 20 basis points (2014: 10 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 basis for 2014 and 2015.

**iii. Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 24). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. 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 performance of their 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, 2014 and 2015 except as follows:

| In HK\$ million       | 2014            |            | 2015            |                 |
|-----------------------|-----------------|------------|-----------------|-----------------|
|                       | Carrying amount | Fair value | Carrying amount | Fair value      |
| Short-term borrowings | (4,823)         | (4,909)    | <b>(3,879)</b>  | <b>(3,890)</b>  |
| Long-term borrowings  | (36,494)        | (37,059)   | <b>(38,090)</b> | <b>(38,600)</b> |

The fair values of short-term and 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.

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### e. Estimation of fair values

The tables below analyze financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

| In HK\$ million                                |            | 2014         |             |              |
|------------------------------------------------|------------|--------------|-------------|--------------|
|                                                | Level 1    | Level 2      | Level 3     | Total        |
| <b>Assets</b>                                  |            |              |             |              |
| Available-for-sale financial assets            |            |              |             |              |
| – Listed equity securities                     | 104        | –            | –           | 104          |
| – Unlisted equity securities                   | –          | –            | 650         | 650          |
| Derivative financial instruments (current)     | –          | 49           | –           | 49           |
| <b>Total assets</b>                            | <b>104</b> | <b>49</b>    | <b>650</b>  | <b>803</b>   |
| <b>Liabilities</b>                             |            |              |             |              |
| Derivative financial instruments (non-current) | –          | (217)        | –           | (217)        |
|                                                |            |              |             |              |
| In HK\$ million                                |            | 2015         |             |              |
|                                                | Level 1    | Level 2      | Level 3     | Total        |
| <b>Assets</b>                                  |            |              |             |              |
| Available-for-sale financial assets            |            |              |             |              |
| – Listed equity securities                     | 24         | –            | –           | 24           |
| – Unlisted equity securities                   | –          | –            | 782         | 782          |
| Derivative financial instruments (current)     | –          | 60           | –           | 60           |
| <b>Total assets</b>                            | <b>24</b>  | <b>60</b>    | <b>782</b>  | <b>866</b>   |
| <b>Liabilities</b>                             |            |              |             |              |
| Contingent consideration payable               | –          | –            | (22)        | (22)         |
| Derivative financial instruments (non-current) | –          | (586)        | –           | (586)        |
| <b>Total liabilities</b>                       | <b>–</b>   | <b>(586)</b> | <b>(22)</b> | <b>(608)</b> |

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise primarily available-for-sale financial assets listed on Tokyo Stock Exchange, Inc. and the Alternative Investment Market operated by London Stock Exchange plc.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts, currency call spread option and foreign exchange forward contracts.

Specific valuation techniques used to value financial instruments include:

- 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 currency call spread option is the dealer quoted price, taking into account of the spot and forward exchange rates that are quoted in an active market and the observable yield curves and the implied volatility.
- The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with same notional amounts adjusted for maturity differences.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Instruments included in level 3 comprise available-for-sale financial assets for equity investments in several private companies.

For unlisted securities or financial assets without an active market, the Group establish 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. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the statement of financial position at cost less impairment losses.

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

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

The key assumptions adopted in the valuation models include market multiples, discount rates and growth rates which are based on historical pattern and industry trends of comparable companies. The fair values of these investments may differ significantly if there are material changes to the underlying assumptions applied in the relevant fair valuation models.

Key assumptions used for the valuations of these unlisted investments are:

- Market multiples (based on price earnings multiples or enterprise value/earnings before interest and tax multiples of comparable companies): 3–20 (2014: 3–20)
- Liquidity discount: 15% – 30% (2014: 15% – 30%)
- Market size discount: 15% – 70% (2014: 15% – 70%)
- Future growth rates: 10% – 50% (2014: 10% – 50%)

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

There were no changes in valuation techniques from December 31, 2014.

The following table presents the changes in level 3 instruments for the year ended December 31, 2015:

| In HK\$ million                                            | Available-for-sale financial assets<br>– unlisted equity securities |      | Contingent<br>consideration payable |      |
|------------------------------------------------------------|---------------------------------------------------------------------|------|-------------------------------------|------|
|                                                            | 2014                                                                | 2015 | 2014                                | 2015 |
| Beginning of year                                          | 509                                                                 | 650  | –                                   | –    |
| Additions                                                  | 176                                                                 | 172  | –                                   | (22) |
| Disposals                                                  | –                                                                   | (30) | –                                   | –    |
| Return of investments                                      | (28)                                                                | –    | –                                   | –    |
| Reclassification of equity interests upon step acquisition | –                                                                   | (78) | –                                   | –    |
| Impairment loss recognized                                 | (12)                                                                | (2)  | –                                   | –    |
| Unrealized fair value gains transferred to equity          | 5                                                                   | 70   | –                                   | –    |
| End of year                                                | 650                                                                 | 782  | –                                   | (22) |

The estimated fair value of level 3 financial assets as at December 31, 2015 was HK\$782 million (2014: HK\$650 million).

During the year ended December 31, 2015, provision for impairment of HK\$2 million (2014: HK\$12 million) was included in other gains, net in the consolidated income statement and there was no transfer (2014: no transfer) from equity to the consolidated income statement on impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 FINANCIAL INSTRUMENTS (CONTINUED)

#### f. Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, 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.

The main level 3 input used by the Group pertains to the use of recent arm's length transactions, reference to portfolio statement, and reference to other listed instruments that are substantially the same, adjusted for the marketability discount on the Group's investments. The higher the marketability discount, the lower the fair value.

### 38 COMMITMENTS

#### a. Capital

Capital commitments authorized and contracted for by nature are as follows:

| In HK\$ million                              | 2014  | 2015  |
|----------------------------------------------|-------|-------|
| Investments                                  | 187   | 170   |
| Investment properties                        | 1,306 | 1,254 |
| Property under development                   | 23    | 19    |
| Acquisition of property, plant and equipment | 880   | 701   |
|                                              | 2,396 | 2,144 |

#### b. Operating leases

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

##### Land and buildings

| In HK\$ million                 | 2014  | 2015  |
|---------------------------------|-------|-------|
| Within 1 year                   | 1,504 | 1,321 |
| After 1 year but within 5 years | 1,821 | 1,573 |
| After 5 years                   | 536   | 391   |
|                                 | 3,861 | 3,285 |

##### Network capacity and equipment

| In HK\$ million                 | 2014  | 2015  |
|---------------------------------|-------|-------|
| Within 1 year                   | 1,288 | 1,139 |
| After 1 year but within 5 years | 752   | 853   |
| After 5 years                   | 264   | 266   |
|                                 | 2,304 | 2,258 |

Majority of the leases typically run for a period of 1 to 15 years. None of the leases include contingent rentals.

One of the lease agreements includes an option that allows the Group to purchase the property at a pre-determined price (subject to annual inflation adjustment) during the lease term.

### 38 COMMITMENTS (CONTINUED)

#### c. Others

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

| In HK\$ million                                    | 2014  | 2015         |
|----------------------------------------------------|-------|--------------|
| Purchase of rights to broadcast certain TV content | 1,752 | <b>1,696</b> |
| Operating expenditure commitment                   | 2,177 | <b>2,171</b> |
|                                                    | 3,929 | <b>3,867</b> |

### 39 CONTINGENT LIABILITIES

| In HK\$ million                                                                   | 2014  | 2015         |
|-----------------------------------------------------------------------------------|-------|--------------|
| Performance guarantees                                                            | 2,338 | <b>2,391</b> |
| Tender guarantees                                                                 | 52    | –            |
| Guarantees given to banks in respect of credit facilities granted to an associate | 62    | <b>60</b>    |
| Guarantees in lieu of cash deposit                                                | 10    | <b>7</b>     |
| Employee compensation                                                             | 16    | <b>12</b>    |
| Guarantees indemnity                                                              | 11    | <b>11</b>    |
|                                                                                   | 2,489 | <b>2,481</b> |

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

### 40 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2015 were HK\$38,431 million (2014: HK\$39,564 million) of which the unused facilities amounted to HK\$14,535 million (2014: HK\$11,647 million).

A summary of short-term and long-term borrowings is set out in notes 25(f) and 26.

Security pledged for certain bank loan facilities includes:

| In HK\$ million               | 2014  | 2015         |
|-------------------------------|-------|--------------|
| Property, plant and equipment | –     | <b>2</b>     |
| Investment properties         | 1,848 | <b>2,058</b> |
| Other current assets          | 182   | <b>143</b>   |
| Cash and cash equivalents     | 20    | <b>39</b>    |
|                               | 2,050 | <b>2,242</b> |

Performance guarantee of approximately HK\$161 million (2014: HK\$166 million) in relation to the construction of the Premium Grade A office building in Jakarta, Indonesia was pledged for certain bank loan facilities as at December 31, 2015.

**41 BUSINESS COMBINATIONS****a. Business combinations during the year ended December 31, 2015****i. Acquisition of Vuclip, Inc. and its subsidiaries (together the "Vuclip Group")**

During the year ended December 31, 2015, the Group has acquired in stages an aggregate of approximately 94.8% equity interests in Vuclip, Inc., a company incorporated in California, United States of America, and its subsidiaries for a total consideration of approximately HK\$1,286 million. This amount has included the fair value of a contingent consideration of approximately HK\$22 million, of which the Group is required to make payments totaling up to a maximum level of approximately HK\$39 million if the businesses of Vuclip Group achieve certain financial milestones within a specified period. The purpose of the acquisition is to expedite the Group's strategy of rolling out its over-the-top ("OTT") video and music services both in the Asian region and globally. Vuclip, Inc. is a leading premium mobile video on demand service provider in emerging markets. Its strengths include its early and extensive penetration into emerging markets facilitated by the use of its patented Dynamic Adaptive Transcoding technology that can deliver high-quality video content across variable network conditions and across all mobile devices without buffering. Together, the Group Media business and Vuclip Group will develop a best of breed OTT platform that provides immediate access to the Group Media business' premium Asian content set (including Korean, Japanese and Chinese content) across a much expanded audience base in the Asian continent and other regions.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date when the Group obtains the majority stake and control of the acquired companies. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2016 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2016.

- (i) Details of net assets acquired and goodwill in respect of the acquisition of the Vuclip Group at the date when control was obtained by the Group were as follows:

| In HK\$ million                                                                                       | Net assets<br>acquired and<br>goodwill |
|-------------------------------------------------------------------------------------------------------|----------------------------------------|
| Purchase consideration settled in cash                                                                | 1,115                                  |
| Fair value of equity interests in the Vuclip Group at the date when control was obtained by the Group | 107                                    |
| Consideration payable                                                                                 | 64                                     |
| Aggregate purchase consideration                                                                      | 1,286                                  |
| Less: Estimated fair value of net assets acquired                                                     | (337)                                  |
| Goodwill on acquisition                                                                               | 949                                    |

The goodwill is attributable to the expected future profits generated from the expansion beyond Vuclip Group's current markets by offering industry leading OTT services. With Vuclip Group's proven technologies and established emerging market footprint as well as its dedicated and talented team, there are significant cost savings, time-to-market advantage and other synergies from this acquisition of the Vuclip Group.

None of the goodwill is expected to be deductible for tax purposes.

#### 41 BUSINESS COMBINATIONS (CONTINUED)

##### a. Business combinations during the year ended December 31, 2015 (continued)

##### i. Acquisition of Vuclip, Inc. and its subsidiaries (together the "Vuclip Group") (continued)

(i) Details of net assets acquired and goodwill in respect of the acquisition of the Vuclip Group at the date when control was obtained by the Group were as follows: (continued)

The assets and liabilities of the Vuclip Group at the date when control was obtained by the Group were as follows:

| In HK\$ million                                                   | Estimated fair value |
|-------------------------------------------------------------------|----------------------|
| Property, plant and equipment                                     | 11                   |
| Intangible assets                                                 | 486                  |
| Trade receivables, prepayments, deposits and other current assets | 76                   |
| Cash and cash equivalents                                         | 67                   |
| Short-term borrowings                                             | (23)                 |
| Trade payables, accruals and other payables                       | (51)                 |
| Current income tax liabilities                                    | (6)                  |
| Long-term borrowings                                              | (10)                 |
| Deferred income tax liabilities                                   | (194)                |
|                                                                   | 356                  |
| Non-controlling interests                                         | (19)                 |
| Net assets acquired                                               | 337                  |

  

| In HK\$ million                                             | Net cash outflow |
|-------------------------------------------------------------|------------------|
| Purchase consideration settled in cash                      | 1,115            |
| Less: Cash and cash equivalents acquired                    | (67)             |
| Total net cash outflow for the year ended December 31, 2015 | 1,048            |

##### (ii) Acquisition-related costs

Acquisition-related costs of approximately HK\$17 million were included in general and administrative expenses in the consolidated income statement for the year ended December 31, 2015.

##### (iii) Revenue and profit contribution

The businesses of the acquired companies contributed revenue of approximately HK\$148 million and loss before income tax of approximately HK\$65 million to the Group for the period from the date when control was obtained by the Group to December 31, 2015. If the acquisition had occurred on January 1, 2015, the acquired companies' revenue and loss before income tax for the year ended December 31, 2015 would have been approximately HK\$216 million and approximately HK\$85 million, respectively.

##### (iv) Gain on remeasuring the Group's existing interests in the Vuclip Group

The Group recognized a gain of HK\$29 million as a result of remeasuring its available-for-sale investment in the Vuclip Group to fair value at the date when control was obtained by the Group. The gain is included in other gains, net in the Group's consolidated income statement for the year ended December 31, 2015.

**41 BUSINESS COMBINATIONS (CONTINUED)****a. Business combinations during the year ended December 31, 2015 (continued)****i. Acquisition of Vuclip, Inc. and its subsidiaries (together the "Vuclip Group") (continued)****(v) Contingent consideration**

The fair value of the contingent consideration arrangement of HK\$22 million was estimated by applying income approach. The fair value estimates are based on a discount rate of 3% and assumed probability-adjusted EBITDA of Vuclip Group. This is a level 3 fair value measurement. The key unobservable assumptions in calculating this EBITDA is the assumed revenue for the period from the date when control was obtained by the Group to December 31, 2018.

During the year ended December 31, 2015, there had been no change in the estimate of fair value of the contingent consideration.

**ii. Acquisition of Keycom plc and its subsidiaries ("Keycom")**

On April 7, 2015, the Group acquired approximately 92.9% of the then issued ordinary share capital of Keycom plc and increased its interest to 100% by the end of June 2015 for a total consideration of approximately £16.6 million (approximately HK\$196 million). Keycom plc is a company engaged in the design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom. A payment of approximately £16.3 million (approximately HK\$192 million) has been made by the Group as at December 31, 2015. The purpose of the acquisition is to expand the Group's business to meet the growing demand for ubiquitous broadband connectivity through building resilient high availability wireless and wired network in the United Kingdom.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2016 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2016.

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

| In HK\$ million                                   | Net assets<br>acquired and<br>goodwill |
|---------------------------------------------------|----------------------------------------|
| Purchase consideration settled in cash            | 166                                    |
| Consideration payable                             | 4                                      |
| Obligation assumed upon business combination      | 26                                     |
| Aggregate purchase consideration                  | 196                                    |
| Less: Estimated fair value of net assets acquired | (53)                                   |
| Goodwill on acquisition                           | 143                                    |

The goodwill is attributable to the expected future profits generated from communications services via high-speed connectivity. As a result of the acquisition, the Group is expected to grow and expand its broadband connectivity business in the United Kingdom via the strong, well-established business with a talented leadership team and employees of Keycom.

None of the goodwill is expected to be deductible for tax purposes.

## 41 BUSINESS COMBINATIONS (CONTINUED)

### a. Business combinations during the year ended December 31, 2015 (continued)

#### ii. Acquisition of Keycom plc and its subsidiaries ("Keycom") (continued)

(i) Details of net assets acquired and goodwill in respect of the acquisition of Keycom at the acquisition date were as follows:  
(continued)

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

| In HK\$ million                                                   | Estimated<br>fair value |
|-------------------------------------------------------------------|-------------------------|
| Property, plant and equipment                                     | 56                      |
| Intangible assets                                                 | 12                      |
| Deferred income tax assets                                        | 8                       |
| Trade receivables, prepayments, deposits and other current assets | 17                      |
| Cash and cash equivalents                                         | 1                       |
| Trade payables, accruals and other payables                       | (30)                    |
| Advances from customers                                           | (11)                    |
| Net assets acquired                                               | 53                      |

  

| In HK\$ million                                             | Net cash outflow |
|-------------------------------------------------------------|------------------|
| Purchase consideration settled in cash                      | 166              |
| Settlement of obligation assumed upon business combination  | 26               |
|                                                             | 192              |
| Less: Cash and cash equivalents acquired                    | (1)              |
| Total net cash outflow for the year ended December 31, 2015 | 191              |

#### (ii) Acquisition-related costs

Acquisition-related costs of approximately HK\$5 million were included in the consolidated income statement for the year ended December 31, 2015.

#### (iii) Revenue and profit contribution

Keycom's revenue and loss attributable to equity holders of the Company for the period from January 1, 2015 to the acquisition date were HK\$24 million and HK\$1 million, respectively. The business of Keycom has been integrated into the Group since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of Keycom to the revenue and profit of the Group during the year ended December 31, 2015 on any reasonable basis.

#### iii. Acquisition of Syntelligence Ltd

On May 26, 2015, the Group completed the acquisition of the entire issued share capital of Syntelligence Ltd, a private company incorporated in the United Kingdom. The acquiree's platform offers a complete solution for the delivery of cloud communications services to enterprises and service providers. The acquisition aims at expanding the Group's offerings in unified communications for enterprises and service providers worldwide. The aggregate consideration was not material to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 41 BUSINESS COMBINATIONS (CONTINUED)

#### b. Business combinations during the year ended December 31, 2014

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

On May 14, 2014, the Group completed the acquisition of the entire issued share capital of CSL Holdings Limited, a company incorporated in Bermuda, and its subsidiaries. The purpose of the acquisition is to bolster the Group's telecommunications business and continue to meet the needs of Hong Kong public and local and international businesses with a wide range of telecommunications services through 4G, 3G and 2G networks, and the sales of mobile telecommunications products, to customers in Hong Kong. The aggregate consideration was approximately US\$2,585 million (approximately HK\$20,054 million) which was recognized in the accounts for the acquisition.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process has been finalized. The initial accounting for the acquisition of the CSL Group was completed as at May 14, 2015. In completing the initial accounting, an addition of HK\$37 million of goodwill has been recorded compared to the provisional amount previously disclosed as a result of additional information with respect to the finalization of the contingent consideration payable.

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

| In HK\$ million                         | Net assets<br>acquired and<br>goodwill |
|-----------------------------------------|----------------------------------------|
| Aggregate purchase consideration        | 20,054                                 |
| Less: Fair value of net assets acquired | (6,402)                                |
| Goodwill on acquisition                 | 13,652                                 |

The goodwill is attributable to the expected future profits generated from the telecommunications business strengthened by enhancement of mobile services income stream through increased economies of scale, enlargement of service capacity and improvement of indoor signal coverage and customer experience, strengthening of roaming business and opportunity to realize operational synergies.

None of the goodwill is expected to be deductible for tax purposes.

#### 41 BUSINESS COMBINATIONS (CONTINUED)

##### b. Business combinations during the year ended December 31, 2014 (continued)

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

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

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

| In HK\$ million                                                                        | Fair value       |
|----------------------------------------------------------------------------------------|------------------|
| Property, plant and equipment                                                          | 1,992            |
| Intangible assets                                                                      | 6,391            |
| Interests in a joint venture                                                           | 14               |
| Prepayments, deposits, trade receivables, net and other current and non-current assets | 1,574            |
| Defined benefit assets                                                                 | 26               |
| Inventories                                                                            | 202              |
| Cash and cash equivalents                                                              | 1,186            |
| Trade payables                                                                         | (287)            |
| Accruals, other payables and carrier licence fee liabilities (current and non-current) | (2,745)          |
| Advances from customers                                                                | (622)            |
| Deferred income                                                                        | (64)             |
| Current income tax liabilities                                                         | (308)            |
| Deferred income tax liabilities                                                        | (921)            |
|                                                                                        | 6,438            |
| Non-controlling interests                                                              | (36)             |
| Net assets acquired                                                                    | 6,402            |
|                                                                                        |                  |
| In HK\$ million                                                                        | Net cash outflow |
| Purchase consideration:                                                                |                  |
| Settled in cash during 2014                                                            | 19,943           |
| Settled in cash during 2015                                                            | 77               |
|                                                                                        | 20,020           |
| Less: Cash and cash equivalents acquired                                               | (1,186)          |
|                                                                                        | 18,834           |

##### (ii) Revenue and profit contribution

CSL Group's revenue and profit attributable to equity holders of the Company for the period from January 1, 2014 to the acquisition date were HK\$2,942 million and HK\$234 million, respectively. The business of the CSL Group has been integrated into the Group since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of the CSL Group to the revenue and profit of the Group during the year ended December 31, 2014 on any reasonable basis.

##### ii. Acquisition of Crypteia Networks S.A.

On October 20, 2014, the Group completed the acquisition of the entire issued share capital of Crypteia Networks S.A., a private company incorporated in Greece. Leverage on acquiree's advanced cyber threat detective capabilities, the acquisition helps to position the Group as a leading network security player in the market. The aggregate consideration was not material to the Group.

**42 DISPOSAL OF INTERESTS IN SUBSIDIARIES****a. Disposal of Gain Score Limited and its subsidiaries (together the “Gain Score Group”)**

On April 8, 2014, the PCPD Group entered into a sale and purchase agreement (“SPA”) pursuant to which the PCPD Group has agreed to sell the entire issued share capital of Gain Score Limited, an indirect non-wholly owned subsidiary of the Company, and to assign a shareholder loan which was made by the PCPD Group to Gain Score Limited to an independent third party for an initial aggregated consideration of US\$928 million (equivalent to approximately HK\$7,201 million), subject to adjustments in accordance with the SPA. The principal assets of the Gain Score Group are the land use rights and property rights in the investment property known as “Pacific Century Place, Beijing” located in mainland China.

The transaction was completed in August 2014, and the final consideration received was US\$939 million (equivalent to approximately HK\$7,281 million) after adjustments in accordance with the SPA.

Details of net assets disposed of and the gain on disposal of interests in the Gain Score Group at the date of disposal were as follows:

| In HK\$ million                                                                                            | Net assets<br>disposed of<br>and the gain on<br>disposal |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Consideration settled by cash, net of direct expenses                                                      | 7,058                                                    |
| Assignment of shareholder loan                                                                             | (1,983)                                                  |
| Less: Carrying amount of net assets disposed of                                                            | (4,263)                                                  |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal | 1,245                                                    |
| Gain on disposal recognized in the consolidated income statement ( <i>note 8</i> )                         | 2,057                                                    |

During the year ended December 31, 2014, the Group recognized in “Other gains, net” the gain on disposal of subsidiaries of HK\$2,057 million and fair value gain on investment properties of HK\$654 million in respect of the principal assets held by the Gain Score Group. Taking into account the gain on disposal of subsidiaries and fair value gain on investment properties included in “Other gains, net”, the provision for capital gains tax from the disposal of Gain Score Group included in “Income tax” and the corresponding earnings attributable to non-controlling interests, the net effects of the disposal of Gain Score Group to profit attributable to equity holders of the Company was HK\$1,749 million and HK\$178 million for the years ended December 31, 2014 and 2015, respectively. The net effect to profit attributable to equity holders of the Company during the year ended December 31, 2015 primarily relates to adjustment to the provision for capital gains tax based on the most recent estimated applicable tax rate for the transaction.

## 42 DISPOSAL OF INTERESTS IN SUBSIDIARIES (CONTINUED)

### a. Disposal of Gain Score Limited and its subsidiaries (together the "Gain Score Group") (continued)

The assets and liabilities of the Gain Score Group at the date of disposal were as follows:

| In HK\$ million                                | Note  | Carrying amount |
|------------------------------------------------|-------|-----------------|
| Property, plant and equipment                  | 15    | 62              |
| Investment property                            | 16    | 7,182           |
| Interests in leasehold land                    | 17    | 10              |
| Intangible asset                               | 20    | 31              |
| Restricted cash                                |       | 5               |
| Prepayments, deposits and other current assets |       | 11              |
| Trade receivables, net                         |       | 4               |
| Cash and cash equivalents                      |       | 208             |
| Shareholder loan                               |       | (1,983)         |
| Accruals, other payables and deferred income   |       | (97)            |
| Current income tax liabilities                 |       | (4)             |
| Deferred income tax liabilities                | 33(a) | (1,166)         |
| Net assets disposed of                         |       | 4,263           |

  

| In HK\$ million                                                                | Net cash inflow |
|--------------------------------------------------------------------------------|-----------------|
| Consideration settled by cash, net of direct expenses                          | 7,058           |
| Less: Cash and cash equivalents of the Gain Score Group disposed of            | (208)           |
| Net inflow of cash and cash equivalents in respect of disposal of subsidiaries | 6,850           |

### b. Disposal of Unihub China Information Technology Company Limited

On October 14, 2014, the Group entered into a sale and purchase agreement pursuant to which the Group has agreed to sell its entire equity interests in Unihub China Information Technology Company Limited ("Unihub China"), an indirect non-wholly owned subsidiary of the Company, to an independent third party for an aggregated consideration of RMB180 million (equivalent to approximately HK\$225 million).

The transaction was completed in December 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 42 DISPOSAL OF INTERESTS IN SUBSIDIARIES (CONTINUED)

#### b. Disposal of Unihub China Information Technology Company Limited (continued)

Details of net assets disposed of and the gain on disposal of interests in Unihub China at the date of disposal were as follows:

| In HK\$ million                                                                                            | Net assets<br>disposed of<br>and the gain on<br>disposal |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Consideration received from disposal of interests in Unihub China                                          | 225                                                      |
| Less: PRC withholding tax                                                                                  | (14)                                                     |
| Less: Carrying amount of net assets disposed of                                                            | (199)                                                    |
| Less: Direct expenses in relation to the disposal                                                          | (36)                                                     |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal | 79                                                       |
| Gain on disposal recognized in the consolidated income statement (note 8)                                  | 55                                                       |

The assets and liabilities of Unihub China at the date of disposal were as follows:

| In HK\$ million                                                                | Note | Carrying amount |
|--------------------------------------------------------------------------------|------|-----------------|
| Property, plant and equipment                                                  | 15   | 5               |
| Prepayments, deposits and other current assets                                 |      | 58              |
| Inventories                                                                    |      | 117             |
| Trade receivables, net                                                         |      | 234             |
| Cash and cash equivalents                                                      |      | 191             |
| Trade payables, accruals and other payables                                    |      | (98)            |
| Advance from customers                                                         |      | (177)           |
| Current income tax liabilities                                                 |      | (7)             |
|                                                                                |      | 323             |
| Non-controlling interests                                                      |      | (124)           |
| Net assets disposed of                                                         |      | 199             |
| In HK\$ million                                                                |      | Net cash inflow |
| Consideration settled by cash, net of PRC withholding tax                      |      | 211             |
| Less: Cash and cash equivalents of Unihub China disposed of                    |      | (191)           |
| Net inflow of cash and cash equivalents in respect of disposal of a subsidiary |      | 20              |

### 43 TRANSACTION WITH NON-CONTROLLING INTERESTS

#### a. Transaction with non-controlling interests during the year ended December 31, 2015

During the year ended December 31, 2015, there was a loan granted by the non-controlling shareholder of a non-wholly owned subsidiary to that subsidiary amounted to approximately HK\$5 million which was unsecured and non-interest bearing with no fixed repayment terms.

#### b. Disposal of interests in PCPD without loss of control during the year ended December 31, 2014

| In HK\$ million                                           | 2014 | 2015 |
|-----------------------------------------------------------|------|------|
| Consideration received from disposal of interests in PCPD | 61   | –    |
| Carrying amount of interests in PCPD disposed of          | (37) | –    |
| Gain on disposal recognized within equity                 | 24   | –    |

During the year ended December 31, 2014, the Group disposed of a total of 11,178,000 ordinary shares of PCPD at the aggregate consideration of approximately HK\$61 million in cash. The total carrying amount of the interests in PCPD disposed of on the dates of the disposal was approximately HK\$37 million. The Group recognized an increase in equity attributable to the equity holders of the Company of approximately HK\$24 million. Immediately after the disposals, the Group holds approximately 71.7% of the ordinary shares of PCPD.

The Group also holds non-redeemable bonus convertible notes with conversion rights to acquire ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and other distributions similar to ordinary shares and can be converted at any time provided that the public float requirements could be complied with, the Company consolidates the results of PCPD on its approximately 92.9% economic interest after taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with HKFRSs.

The disposal of ordinary shares of PCPD constituted a reduction of approximately 0.7% economic interest in PCPD from approximately 93.6% to approximately 92.9% on an as-converted basis immediately after the disposals.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2015

(Amount expressed in Hong Kong dollars unless otherwise stated)

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

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

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

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

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

## FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2015

### Results

| In HK\$ million                               | 2011*    | 2012     | 2013     | 2014     | 2015            |
|-----------------------------------------------|----------|----------|----------|----------|-----------------|
| Revenue                                       | 24,638   | 25,318   | 27,317   | 33,277   | <b>39,314</b>   |
| Cost of sales                                 | (11,397) | (11,816) | (13,111) | (15,151) | <b>(18,965)</b> |
| General and administrative expenses           | (9,604)  | (10,150) | (10,735) | (14,091) | <b>(14,534)</b> |
| Other gains, net                              | 143      | 371      | 685      | 2,717    | <b>135</b>      |
| Interest income                               | 71       | 62       | 80       | 90       | <b>87</b>       |
| Finance costs                                 | (1,565)  | (966)    | (1,111)  | (1,418)  | <b>(1,634)</b>  |
| Share of results of equity accounted entities | 32       | (22)     | 140      | 50       | <b>37</b>       |
| Profit before income tax                      | 2,318    | 2,797    | 3,265    | 5,474    | <b>4,440</b>    |
| Income tax                                    | (542)    | (232)    | (210)    | (803)    | <b>(447)</b>    |
| Profit for the year                           | 1,776    | 2,565    | 3,055    | 4,671    | <b>3,993</b>    |
| Attributable to:                              |          |          |          |          |                 |
| Equity holders of the Company                 | 1,607    | 1,661    | 1,885    | 3,310    | <b>2,295</b>    |
| Non-controlling interests                     | 169      | 904      | 1,170    | 1,361    | <b>1,698</b>    |

### Assets and Liabilities

| As at December 31, in HK\$ million | 2011     | 2012     | 2013     | 2014     | 2015            |
|------------------------------------|----------|----------|----------|----------|-----------------|
| Total non-current assets           | 30,909   | 33,070   | 36,358   | 51,648   | <b>54,619</b>   |
| Total current assets               | 14,941   | 16,774   | 17,579   | 21,391   | <b>20,139</b>   |
| Total current liabilities          | (10,747) | (19,412) | (10,658) | (19,018) | <b>(17,493)</b> |
| Total non-current liabilities      | (27,656) | (22,294) | (34,646) | (41,652) | <b>(43,923)</b> |
| Net assets                         | 7,447    | 8,138    | 8,633    | 12,369   | <b>13,342</b>   |

### Distributable Reserves of the Company

| As at December 31, in HK\$ million    | 2011   | 2012   | 2013   | 2014   | 2015          |
|---------------------------------------|--------|--------|--------|--------|---------------|
| Distributable reserves of the Company | 17,120 | 17,418 | 15,874 | 17,912 | <b>18,460</b> |

\* Comparative figures of the results ended December 31, 2011 have not been restated to reflect the adoption of HKAS19 (2011) as the directors are of the opinion that it is impracticable to do so.

# INVESTOR RELATIONS

## DIRECTORS

The directors of the Company as at the date of the announcement of the 2015 Annual Results are:

Executive Directors:

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

Non-Executive Directors:

Sir David Ford, KBE, LVO  
Tse Sze Wing, Edmund, GBS  
Lu Yimin (*Deputy Chairman*)  
Li Fushen  
Zhang Junan  
Wei Zhe, David

Independent Non-Executive Directors:

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP  
Aman Mehta  
Frances Waikwun Wong  
Bryce Wayne Lee  
Lars Eric Nils Rodert  
David Christopher Chance

## GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Grace M.Y. Lee

## REGISTERED OFFICE

41st Floor, PCCW Tower  
Taikoo Place, 979 King's Road  
Quarry Bay, Hong Kong  
Telephone: +852 2888 2888  
Fax: +852 2877 8877

## ANNUAL REPORT 2015

This Annual Report 2015 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, and in accessible format on the websites of the Company ([www.pccw.com/ir](http://www.pccw.com/ir)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

Shareholders who:

- A) received the Annual Report 2015 using electronic means through the website of the Company may request a printed copy, or
- B) received the Annual Report 2015 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to the Company c/o the Company's Share Registrar at:

Computershare Hong Kong Investor Services Limited  
Investor Communications Centre  
17M Floor, Hopewell Centre  
183 Queen's Road East, Wan Chai, Hong Kong  
Telephone: +852 2862 8688  
Fax: +852 2865 0990  
Email: [pccw@computershare.com.hk](mailto:pccw@computershare.com.hk)

Shareholders who have chosen (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Annual Report 2015) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2015 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2015 in printed form, free of charge.

Shareholders may change their choice of language and/or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrar.

## LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain guaranteed notes issued by subsidiaries of the Company are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

## STOCK CODES

|                                         |         |
|-----------------------------------------|---------|
| The Stock Exchange of Hong Kong Limited | 0008    |
| Reuters                                 | 0008.HK |
| Bloomberg                               | 8 HK    |
| ADRs                                    | PCCWY   |

## REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wan Chai, Hong Kong  
Telephone: +852 2862 8555  
Fax: +852 2865 0990  
Email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

## ADR DEPOSITARY

Citibank, N.A.  
PCCW American Depositary Receipts  
Citibank Shareholder Services  
P.O. Box 43077  
Providence, Rhode Island 02940-3077, USA  
Telephone: +1 877 248 4237 (toll free within USA)  
Telephone: +1 781 575 4555  
Email: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)  
Website: [www.citi.com/dr](http://www.citi.com/dr)

## SHARE INFORMATION

|                                        |                      |
|----------------------------------------|----------------------|
| Board lot:                             | 1,000 shares         |
| Issued shares as at December 31, 2015: | 7,621,350,679 shares |

## DIVIDEND

|                                                                   |                |
|-------------------------------------------------------------------|----------------|
| Dividend per ordinary share for the year ended December 31, 2015: |                |
| Interim                                                           | 7.96 HK cents  |
| Final                                                             | 17.04 HK cents |

## FINANCIAL CALENDAR

|                                                                                                              |                                            |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Announcement of 2015 Annual Results                                                                          | February 26, 2016                          |
| Closure of register of members<br>(for determination of shareholders<br>who qualify for 2015 final dividend) | May 11 – 12, 2016<br>(both days inclusive) |
| Record date for 2015 final dividend                                                                          | May 12, 2016                               |
| Payment of 2015 final dividend                                                                               | On or around June 21, 2016                 |
| 2016 Annual General Meeting                                                                                  | May 5, 2016                                |

## INVESTOR RELATIONS

Marco Wong  
PCCW Limited  
41st Floor, PCCW Tower  
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Email: [ir@pccw.com](mailto:ir@pccw.com)

## WEBSITE

[www.pccw.com](http://www.pccw.com)



## PCCW Limited (Incorporated in Hong Kong with limited liability)

41/F, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong  
T: +852 2888 2888 F: +852 2877 8877 [www.pccw.com](http://www.pccw.com)

PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)  
and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the US (Ticker: PCCWY).

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