



2016

ANNUAL REPORT

TRANSFORMING
LIVES IN THE
DIGITAL WORLD

CONTENTS

1	Corporate Profile
2	Significant Events in 2016
4	Awards
9	Key Figures
10	Statement from the Chairman
11	Statement from the Group Managing Director
14	Board of Directors
20	Corporate Governance Report
35	Management's Discussion and Analysis
44	Financial Information
208	Investor Relations
A1	Appendix – Environmental, Social and Governance Report

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.

Through HK Television Entertainment Company Limited, PCCW also operates a domestic free television service in Hong Kong.

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 other overseas investments.

Employing over 25,000 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 2016

JANUARY

PCCW Media signs a pan-regional agreement with four top Korean broadcasters to air Korean drama series and other programmes.

Viu OTT service expands in Asia with the launch in Singapore. The service later expands its footprint to Malaysia, India, Indonesia and the Philippines.



FEBRUARY

PCCW reports financial results for the year ended December 31, 2015.

MARCH

Now TV and NETVIGATOR jointly launch Now One 4K all-in-one box.



Now TV and Netflix announce partnership to deliver Netflix content through Now One.

APRIL

HK Television Entertainment Company Limited launches free TV service ViuTV (Channel 99) in Hong Kong.



Viu OTT garners the Gold Award for Best Mobile App in HKICT Awards 2016.

Now TV secures UEFA EURO 2016 pay-TV broadcast rights in Hong Kong.

MAY

HKT is named Best Asian Telecoms Carrier and Best Broadband Carrier at Telecom Asia Awards 2016.

JUNE

PCCW launches a programme to support university R&D to promote innovation and technology development in Hong Kong.

PCCW Solutions launches D-Infinity Global Data Center Alliance.

JULY

Pacific Century Place Jakarta, Pacific Century Premium Developments' (PCPD) 40-storey Premium Grade A office building in Indonesia, is topped out.

AUGUST

PCCW reports financial results for the six months ended June 30, 2016.

Now TV becomes Hong Kong Football Association's media partner providing live broadcast of matches of the Hong Kong football team until 2018.

HKT has formed a joint venture, Smart Charge (HK) Limited, with CLP Holdings Limited to offer electric vehicle charging solutions.

SEPTEMBER

PCCW Media launches MOOV music service in Vietnam.



OCTOBER

HKT is the title sponsor of the Formula E HKT Hong Kong ePrix.

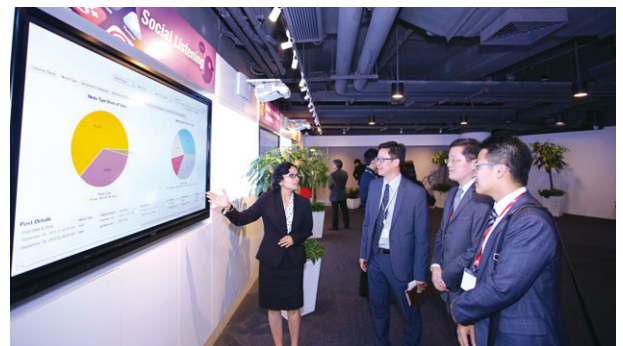


ViuTV announces its English channel ViuTVsix (Channel 96) will be launched on March 31, 2017.



NOVEMBER

PCCW Solutions expands its headquarters office in Hong Kong.



HKT announces to construct Ultra Express Link, a super high capacity fiber optic cable connecting Tseung Kwan O Industrial Estate and Chai Wan.

Viu OTT has achieved 4 million users in its first year of launch.

DECEMBER

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

AWARDS

Award	Awardee	Scheme Organizer
10 Years Plus Caring Company Logo	PCCW	The Hong Kong Council of Social Service
25 Most Promising Oracle Solution Providers 2016	PCCW Solutions	APAC CIOoutlook
48th Distinguished Salesperson Award Programme - Distinguished Salesperson Award - Outstanding Young Salesperson Award	Now TV and Yellow Page staff members Now TV staff member	The Hong Kong Management Association
Asia Pacific ICT Awards 2016 Asia Pacific Telco Digital Service Provider of the Year	PCCW Media, Viu	Frost & Sullivan
Award of 10,000 Hours for Volunteer Service	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best Graduate Employers 2016	PCCW Media	JobMarket
Best of IT Award 2015 - The Best Cloud Platform Award - My Favorite Pay-TV Service Award	PCCW Solutions Now TV	PCM
2016 China Top 500 Solutions Providers 2016 China Top 10 Financial Solutions Providers 2016 China Top 10 IT Service Providers 2016 China Top 100 Solutions Providers 2016 Excellent Cloud Service Providers	PCCW Solutions	Business Partner Advisory Organization
CarbonCare® Action Label 2016	PCCW	Carbon Care Asia
Cloud Excellence Awards 2016 Best Platform-as-a-Service	PCCW Solutions	Cloud Tech Forum
Computerworld Hong Kong Awards 2016 - IT Outsourcing & Managed Service Provider - Platform-as-a-Service Provider	PCCW Solutions	Computerworld Hong Kong
2016 Duty of Care Awards Outstanding Employers in Hong Kong	PCCW	International SOS Foundation and Employers' Federation of Hong Kong



Viu OTT wins the Asia Pacific Telco Digital Service Provider of the Year at the Asia Pacific ICT Awards 2016.

Award	Awardee	Scheme Organizer
e-Brand Awards 2016		e-Zone
• The Best of Network TV	Now TV	
GoHome Awards 2016		GoHome
• Best Lifestyle Brands – Best Entertainment TV Platform	Now TV	
2015 Gold Award for Volunteer Service (Organization)	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Hong Kong Awards for Environmental Excellence		Environmental Campaign Committee
• “Good Level” of Wastewi\$e Certificate	PCCW	
Hong Kong Call Centre Association Awards 2016		Hong Kong Call Centre Association
• Best Contact Centre in Quality Assurance – Merit	PCCW Media	
• Outbound Contact Centre of the Year (Over 50 Seats) – Merit		
• Outbound Contact Centre of the Year (20–50 Seats) – Merit		
• Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold	PCCW Media – Now TV	
• Contact Centre Trainer of the Year – Silver	PCCW Media staff	
• Outbound Contact Centre Manager of the Year – Bronze	members	
Best Solution Partner of the Year 2016	PCCW Solutions	GS1 Hong Kong
Hong Kong ICT Awards 2016		Office of the Government Chief Information Officer
• Best Mobile Apps (Consumer Solutions) Gold Award	Viu	
IBM Business Partner Top Contributor Award		IBM
• System Integrator Service	PCCW Solutions	
IEBE Awards		International e-Business Expo
• 2015 Valuable Cross-Border e-Business Organization	PCCW Solutions	
IoT Heroes Awards 2016	PCCW Solutions staff member	GS1 Hong Kong
IT Square Editors’ Choices 2015		Sing Tao Daily
• End-to-End Solutions for Retail Industry	PCCW Solutions	

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
2016 Kam Fan Awards • Film/Radio & Audio Crafts – Art Direction (Finalist)	ViuTV	The Association of Accredited Advertising Agencies of Hong Kong
Marketing Excellence Awards 2016 • Excellence in Data-driven Marketing – Gold	PCCW Media	<i>Marketing Magazine</i>
Media Convergence Awards 2015 • Top 10 Media • TV Category (Mobile) – Gold Award • TV Category (Overall) – Silver Award • TV Category (Social Media) – Silver Award • TV Category (Website) – Silver Award	PCCW Media	Hong Kong Association of Interactive Marketing
Metro Awards For Brand Excellence 2015 • Best Infotainment Pay-TV Service	Now TV	<i>Metro Daily & Metro Prosperity</i>
Metro Awards For Service Excellence 2016 • Excellence in Information and Entertainment Service (Pay TV)	Now TV	<i>Metro Daily & Metro Prosperity</i>
Metro Creative Awards 2016 • The Best Creative Ad	Now TV	<i>Metro Daily</i>
Merit of Highest Service Hour Award 2015 (Private Organisations – Category 1)	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department



Now TV wins the TV Category (Mobile) – Gold Award of the Media Convergence Awards 2015.



PCCW receives an award for volunteer service hours from the Social Welfare Department for the 15th straight year.

Award	Awardee	Scheme Organizer
2016 New York Festivals International TV & Film Awards		International Awards Group
• Gold World Medal • Gold World Medal	PCCW Media	
Oracle Excellence Awards		Oracle Corporation
• Specialized Partner of the Year – Asia Pacific – HK/Taiwan Regional Partner of the Year	PCCW Solutions	
2015 Outstanding Fintech Enterprise	PCCW Solutions	China Computer Users Association and China Financial CIO Union
Outstanding Service Award	PCCW Solutions	China (Shenzhen) International Logistics and Transportation Fair
PCM Biz. IT Excellence 2016		PCM
• IT Solution Excellence	PCCW Solutions	
PromaxBDA Asia 2015		Promax Asia
• Best Entertainment Promo – Gold Award • Best News/Current Affairs Promo – Silver Award	PCCW Media	
PromaxBDA Asia 2016		Promax Asia
• Best In-house Station Image – Silver Award	ViuTV	
SAP Greater China Partner Excellence Award 2016 for Analytics		SAP
• Top Revenue Contributor	PCCW Solutions	



PCCW Solutions receives the Specialized Partner of the Year – Asia Pacific – HK/Taiwan Regional Partner of the Year at the Oracle Excellence Awards.



At the PromaxBDA Asia 2016, ViuTV receives the Best In-house Station Image – Silver Award.

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
SAP Greater China Partner Excellence Award 2016 for SME		SAP
• Top Revenue Contributor	PCCW Solutions	
SAP Top 3 General Business Partner in South Region		SAP
	PCCW Solutions	
2015-16 Save Energy Mission		Friends of the Earth (HK)
• Bronze Award	PCCW	
2015-16 Save Resources Mission		Friends of the Earth (HK)
• Gold Award	PCCW	
Social Capital Builder Logo Awards		Community Investment and Inclusion Fund (CIIF) of the Labour and Welfare Bureau
	PCCW	
SMBWorld Awards 2016		<i>SMBWorld</i>
• Best SMB Technology Product (Services) – IT Outsourcing	PCCW Solutions	
Telecom Asia Awards 2016		Telecom Asia
• Best OTT Video Service – Gold Award	PCCW Media	
The 7th HK Outstanding Corporate Citizenship Bronze Award – Volunteer Team	PCCW	Hong Kong Productivity Council
2015 Top 10 China IT Outsourcing Service Enterprises		China Software and Services Outsourcing Network
• No. 1	PCCW Solutions	
TOUCH Brands 2016		<i>East TOUCH</i>
• Touch Brands Award	Now TV	
Touching Moment Contest 2015		Hong Kong Association for Customer Service Excellence
• Top 3 Essays	PCCW	
• Top 3 Videos		
VMware Hong Kong Partner Award 2016		VMware Hong Kong
	PCCW Solutions	
Yahoo Big Idea Chair 2016		Yahoo Hong Kong
• Best Content Marketing Campaign – Merit	PCCW Media – Viu	

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, 2016

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

	2015	2016
Revenue		
Core revenue*	39,149	38,210
PCPD	165	174
	39,314	38,384
Cost of sales	(18,965)	(17,743)
General and administrative expenses	(14,534)	(15,114)
Other gains, net	135	32
Interest income	87	52
Finance costs	(1,634)	(1,429)
Share of results of associates	52	66
Share of results of joint ventures	(15)	(21)
Profit before income tax	4,440	4,227
Income tax	(447)	(395)
Profit for the year	3,993	3,832
Attributable to:		
Equity holders of the Company	2,295	2,051
Non-controlling interests	1,698	1,781
Earnings per share (in HK cents)		
Basic	30.58	26.79
Diluted	30.54	26.76
Dividend per share (in HK cents)		
Interim dividend	7.96	8.16
Final dividend proposed after the end of the reporting period	17.04	20.17
EBITDA ¹		
Core EBITDA*	12,139	12,506
PCPD	(261)	(280)
	11,878	12,226

* Note: Please refer to page 35. Note 1: Please refer to page 38.

STATEMENT FROM THE CHAIRMAN

I am pleased to report a steady performance for PCCW Limited for the year ended December 31, 2016.

Continuing to lead the local pay-TV market, PCCW Media has significantly enlarged its Asian footprint in the past year. In Hong Kong, Now TV's strategy to continuously enhance its content and multi-platform experience enabled it to increase customer loyalty despite keen market competition.

On OTT video entertainment, following the Hong Kong debut in 2015, Viu premium service was launched in Singapore, Malaysia, India, Indonesia, and the Philippines last year. Our OTT video service is available in 18 markets globally with over 10 million subscribers.

Free TV service ViuTV officially commenced broadcasting in April 2016 with the Cantonese channel, which has been gradually building its viewership base. The English service, ViuTVsix, will air on March 31, 2017. PCCW undertakes to give Hong Kong viewers more quality free TV experience.

Our IT solutions business consistently enjoys the leading position in the Hong Kong market. Last year, PCCW Solutions expanded its sales presence and delivery capability in the region to generate further growth. Its industry-specific solutions, digital and cloud services, and partnership offerings such as the D-Infinity global data center service launched last year are also key growth drivers in the increasingly digital and connected world, culminating in a notable year-on-year increase in secured orders at the end of 2016. We will continue to focus on enabling enterprises in their digital transformation journey and will seek to further expand our footprint in China and Southeast Asia.

HKT's broadband and mobile communications businesses continued to perform steadily despite the slowdown in economic conditions in Hong Kong and intensified market competition. We have further expanded our fiber network, and completed the integration of the core mobile network in the third quarter, releasing synergies according to plan. Tap & Go received Hong Kong's first mobile payment facility license last August, while HKT rolled out a city-wide electric vehicle (EV) charging service in the same month.

The overseas property projects of Pacific Century Premium Developments (PCPD) progressed as scheduled. In particular, Pacific Century Place Jakarta, the 40-storey Premium Grade A office building in Indonesia, was topped out in July. Leasing activities are in full swing, with several renowned multinational corporations having committed to occupying office space in this new landmark. PCPD will continue to identify new opportunities around the world.

Last year, many were taken by surprise by the Brexit decision and the changing political environment in the United States. These results could have far reaching implications on a global scale politically and economically, and have created additional uncertainties to the economic recovery and growth globally. Meanwhile, there was some stabilization of the local economy in the second half but it remains to be seen whether the growth pace can accelerate further.

In 2017, we will continue to build on the market leadership of the Group's core businesses of pay-TV, IT solutions and telecommunications in Hong Kong. New innovative services such as mobile payment and EV charging are gaining traction. Although our OTT business and free TV service are currently in their investment phase, we are confident that Viu, which has established itself as a leading Asian premium content platform, and ViuTV will add value for shareholders in the medium to longer term.

We remain cautiously optimistic as we enter 2017. We shall continually monitor the market dynamics and fine tune our product and service offerings to drive growth.



Richard Li
Chairman
January 16, 2017

STATEMENT FROM THE GROUP MANAGING DIRECTOR

In this ever-converging world, PCCW is creating and enriching the digital journeys for both individual consumers and businesses. We craft award-winning experiences for viewers to enjoy the latest in entertainment, we help people to communicate better and enjoy a smarter lifestyle, we enable enterprises to connect and open new markets, and we help transform business with insightful solutions. We leverage our leading position in the markets of our core businesses and aim to become a key regional player and a global company.

PCCW continues to be the leading provider of fixed line voice, broadband, mobile communications, pay-TV, and enterprise IT services in Hong Kong, and the leading pan-regional OTT video service provider. We are present in more than 40 markets, serving over 12 million consumers globally. There are 690 companies within Forbes Global 2000 that are our active customers.

In the following sections, I am pleased to outline the activities in the past year of our key business segments – media entertainment, enterprise IT solutions, and telecommunications – and how PCCW helps transform lives in the digital world.

TOP-CLASS DIGITAL ENTERTAINMENT EXPERIENCE

PCCW Media is a major player in the entertainment industry operating the Group's interactive pay-TV service Now TV, pan-regional OTT video service Viu, digital music platform MOOV, and other related services.

In Hong Kong, Now TV last year continued to roll out international sports, blockbuster movies, popular TV series, and other premium content to reinforce its leadership position in the pay-TV market. In conjunction with NETVIGATOR, the broadband service provider within the Group, Now TV introduced a 4K ultra high definition set-top box, Now One, in the first half. Now One provides convenient access to Now TV, digital terrestrial TV (DTT) and OTT services including Netflix. Our efforts resulted in increased customer loyalty to our services, such as video on demand, across our multiple delivery platforms.

PCCW Media's OTT video service, Viu, has rapidly expanded its Asian footprint beyond Hong Kong to cover Singapore, Malaysia, India, Indonesia and the Philippines. It enjoys high engagement levels and accelerating growth in video views. The Group's OTT video service is now present in 18 markets globally with more than 10 million subscribers.

Viu offers an extensive premium content lineup including Korean content from the top four Korean broadcasters, as well as Chinese, Indonesian, Japanese, Malaysian, Taiwanese, Thai, and Hollywood content for local viewers in different markets. Quickly becoming a market leader in Southeast Asia, Viu has been bestowed with awards including Best OTT Video Service in Telecom Asia's annual award, Asia Pacific Telco Digital Service Provider of the Year in Frost & Sullivan's Asia Pacific ICT Awards 2016, and the Hong Kong ICT Awards 2016's Best Mobile Apps (Consumer Solutions) Gold Award.

As a further step in regional expansion, MOOV was launched in Vietnam in September. MOOV in Vietnam features a localized user interface, music from more than 150 content providers in Vietnam and more.

GIVING VIEWERS BETTER FREE TV EXPERIENCE

In addition to pay-TV and OTT, the Group has made an investment in domestic free television service via HK Television Entertainment Company Limited. On April 6, 2016 ViuTV officially commenced broadcasting of its Channel 99 Cantonese service via frequency spectrum. ViuTV has developed a following of its refreshing original formats factual entertainment programs and is seen as a welcome choice by both viewers and advertisers. In 2017, ViuTV will enrich its content lineup with more dramas and music programs.

The English-language service, ViuTVsix, will be launched as Channel 96 on March 31, 2017. ViuTVsix will provide viewers with news and public affairs programs, variety shows, infotainment, classic and latest dramas.

We remain cautious about this highly competitive market particularly with the imminent entry of a new player this year.

DRIVING GROWTH IN INFORMATION TECHNOLOGY SOLUTIONS BUSINESS

PCCW Solutions, the Group's IT solutions flagship, aims to assist our customers to become digital enterprises. It drives growth by offering industry-specific solutions to customers, leveraging our depth and skills in digital and cloud services, and seeking market expansion in China and the region, through strategic partnership or alliance where desirable.

In 2016, PCCW Solutions achieved greater diversification in terms of industry segments and geographically – including new sales presence in Taiwan and Singapore, and a new delivery center in the Philippines. Overall, we recorded a healthy organic growth which was reflected in the increase in the amount of secured orders. Our continued focus on operational efficiencies has also resulted in margin expansion.

PCCW Solutions offers customers seven data center facilities in Hong Kong and one in Guangzhou, China. In June 2016, PCCW Solutions launched D-Infinity Global Data Center Alliance, pulling together leading data center service providers around the world to address enterprises' growing demand for cost-effective multi-site co-location, value added services, global hosting and connectivity. From 80 facilities across 40 cities, D-Infinity had rapidly grown in a few months' time to a critical mass of 120 data center locations in more than 70 cities across North America, Europe and the Asia Pacific region by the end of 2016.

During the year, PCCW Solutions attained CMMi Level 5, a high-level quality assurance certification, for application development and management covering Hong Kong, China, and the Philippines. We were also presented top partnership awards by Oracle, SAP and IBM.

With its core value propositions in enterprise applications, analytics, enterprise mobility and cloud, PCCW Solutions will expand its capabilities and service offerings for customers in financial services, telecommunications, media, retail, manufacturing, travel and transportation in Hong Kong, China and ASEAN, and continue to focus on and enhance its services for the public sector in Hong Kong.

The slowdown in the Hong Kong economy has posed challenges for consumer centric businesses, and local enterprises' sentiment about IT spending has been cautious. Nevertheless, we are confident that PCCW Solutions is well positioned to act as a gateway for Mainland enterprises to expand internationally and for global based enterprises to expand their presence in Greater China.

CONNECTING THE DIGITAL WORLD

HKT achieved a solid Adjusted Funds Flow (AFF) last year underpinned by satisfactory business performance, operational synergies and improved margins.

The broadband business continued its steady performance in 2016, even though we were faced with the most intense competitive pressure in recent years and lackluster local economic conditions. As we endeavor to serve our customers in remote geographical areas, we expanded during last year our coverage in the rural villages, as well as strengthening high-speed broadband availability on some outlying islands.

Following the consolidation of the radio cell sites of the legacy CSL and HKT mobile networks at the end of 2015, integration of the core network was successfully concluded in the third quarter of 2016. In addition to realizing savings and operational synergies, the unified system is now in a better-than-ever position to offer reliable, hi-speed services to our mobile customers.

In August, HKT launched a new equal joint venture with CLP Holdings Limited, Smart Charge (HK) Limited, which offers total electric vehicle (EV) charging solutions. Meanwhile, HKT's mobile payment service, Tap & Go, was granted one of Hong Kong's first Stored Value Facilities (SVF) licenses. It has introduced a range of new features to enhance consumer and merchant experience. These new businesses enable consumers to acquire a smarter lifestyle.

GOOD PROGRESS IN PROPERTY PROJECTS

During the year, Pacific Century Premium Developments (PCPD) proceeded with its development projects in Indonesia, Japan and Thailand according to plan.

Pacific Century Place Jakarta, a 40-storey Premium Grade A office building in the capital city of Indonesia, was topped out last July. The interior works, building services and façade installation are in progress. Leasing activities have been going well with Citibank Indonesia, Sotheby's Hong Kong Limited, FWD and the Northstar Group having committed to becoming tenants. More companies have expressed interest in moving their regional headquarters or Indonesia representative offices to the building, which is expected to be in operation this year.

PCPD is focused on developing green buildings by meeting internationally-recognized standards. Pacific Century Place Jakarta last year won the Special Recognition in Sustainable Development and Highly Commended Best Office Architectural Design awards in the Indonesia Property Award 2016.

As for the project in Hokkaido, Japan, Park Hyatt Hotel and the branded residential units are expected to be completed in late 2019, and we anticipate launching the residential portion in the first quarter of this year.

LOOKING AHEAD

The outlook for 2017 is overshadowed by global events including the change of the United States leadership, execution of the Brexit mechanism, and other challenges for growth in Europe. Within Hong Kong, we have yet to see a strong return of consumer and business confidence.

Last year, management successfully implemented a number of initiatives and launched new product and service offerings in Hong Kong and in the region, planting seeds for the Group's future growth and development. In 2017, we will continue to identify suitable opportunities, and monitor the external environment carefully to deliver value to shareholders. Given the dynamic environment, we will invest prudently.



BG Srinivas

Group Managing Director
January 16, 2017

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 50, 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 and holds directorships in certain PCCW group companies. He is also a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. He is also an Alternate Director to Sir David Ford, a Non-Executive Director of PCCW, in certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

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 52, 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 65, 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. 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 79, 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 General Manager and Vice Chairman of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited[#]). 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 54, 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, Deputy General Manager 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[#]). 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 59, became a Non-Executive Director of PCCW in August 2014 and is a member of the Remuneration Committee of the Board.

Mr Zhang joined 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited[#]) in December 2005 and served as a Director and Vice President until October 2016. Mr Zhang was appointed as Vice President of China Unicom (Hong Kong) Limited (Unicom HK) in April 2006, Executive Director of Unicom HK from April 2006 to October 2008 and from August 2014 to October 2016 respectively, and Senior Vice President of Unicom HK from February 2009 to October 2016. He was also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited. 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.

[#] For identification only

WEI Zhe, David

Non-Executive Director

Mr Wei, aged 46, 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 20 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 and JNBY Design Limited, and an independent non-executive director of Zall Group Ltd., which are listed on The Stock Exchange of Hong Kong Limited. He is also 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. The Hon. Sir David LI Kwok Po, GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur
Independent Non-Executive Director

Sir David, aged 77, 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 an Independent Non-executive 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 and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited. He was a Director of CaixaBank, S.A. (listed in Spain) and an Independent Non-executive Director of Armada Holdings Limited (formerly known as SCMP Group Limited).

Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012.

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 70, 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 and Wockhardt Limited in Mumbai, India; and Max Financial Services Limited (formerly Max India Limited) and Cairn India Limited in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited and Jet Airways (India) 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 55, 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. 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, 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 55, 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 59, 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 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 (media and IT solutions) 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, 2016.

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 enquiry 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 45 to 73 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, providing leadership for the Board in setting objectives and strategies, and ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the management of the Company in conducting its business affairs in accordance with the Company's objectives, and implementing the Group's strategies and policies. Details of the composition of the Board are set out in the Report of the Directors on pages 45 to 73 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, 2016, 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 pages 74 to 81 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 14 to 19 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).

The Board held four meetings in 2016. The annual general meeting of the Company was held on May 5, 2016 with the attendance of the external auditor to answer questions.

BOARD OF DIRECTORS (CONTINUED)

The attendance of individual directors at the Board and its committee meetings, and the annual general meeting held in 2016 is set out in the following table:

Meetings attended/eligible to attend in 2016 <i>(Note 1)</i>					Annual General Meeting
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	
Executive Directors					
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	4/4	N/A	N/A	N/A	1/1
Non-Executive Directors					
Sir David Ford	3/4	N/A	N/A	N/A	1/1
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	2/4 <i>(Note 3)</i>	N/A	0/1	N/A	1/1
Zhang Junan	1/4	N/A	N/A	0/3	0/1
Wei Zhe, David	4/4	N/A	N/A	3/3	1/1
Independent Non-Executive Directors					
Dr The Hon Sir David Li Kwok Po	4/4	N/A	1/1	3/3	1/1
Aman Mehta <i>(Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee)</i>	4/4	3/3	1/1	3/3	1/1
Frances Waikwun Wong	4/4	N/A	1/1	3/3	1/1
Bryce Wayne Lee	4/4	3/3	N/A	3/3	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:

1. 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").
2. 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.
3. Attendance at one Board meeting was by an alternate director of Li Fushen 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.

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 52 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, 2016 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed director of the Company will meet with fellow directors and senior management 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 regularly updated of the legal and regulatory requirements relevant to their duties through their participation in the training seminars organized by the company secretary, and the operations, organization and governance policies of the Company through regular meetings with management. They are also provided with written materials from time to time to develop and refresh their knowledge and skills and regular updates on the Group's business. The company secretary organizes and arranges seminars presented by qualified professionals 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, have received the requisite director's training. The Company has received confirmation from all directors of their respective training records for the year ended December 31, 2016.

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

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*, 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 the Group's policies 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, and assists 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.

BOARD COMMITTEES (CONTINUED)

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 and the website of Hong Kong Exchanges and Clearing Limited (the "HKEX") at 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 are:

Aman Mehta (*Chairman*)

Dr The Hon Sir David Li Kwok Po

Wei Zhe, David

Zhang Junan

Frances Waikwun Wong

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 three times in 2016. The attendance of individual directors at the committee meetings is set out on page 22 of this annual report.

The work performed by the Remuneration Committee during 2016 included:

- (i) review and approval of the 2015 performance bonus for executive directors and senior management;
- (ii) review and approval of the 2016 business key performance indicators and performance bonus scheme for executive directors and senior management;
- (iii) review of the non-executive directors' fees for 2016;
- (iv) review of the proposed issue of new shares of the Company for grant of awards pursuant to the Company's share award scheme, with a recommendation to the Board for approval;
- (v) review and approval of share awards made pursuant to the Company's share award scheme(s); and
- (vi) review of the terms of reference of the Remuneration Committee.

Subsequent to the year end, the emoluments of directors of the Company for 2016 have been reviewed by the Remuneration Committee. 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 January 16, 2017 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.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (continued)

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 2016. The attendance of individual directors at the committee meeting is set out on page 22 of this annual report.

The work performed by the Nomination Committee during 2016 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 2016 annual general meeting;
- (iii) annual review of the structure, size and composition of the Board taking into account the Board Diversity Policy, 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 the Group's results to the shareholders. The Audit Committee is also responsible for assisting the Board to ensure effective risk management and internal control systems of the Group are in place and good corporate governance standards and practices are maintained within the Group. 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, and accounting advice related to material transactions, 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, non-financial reporting information systems consultation, and accounting advice related to application of new accounting standards, which require specific review and approval by the Audit Committee.

For the year ended December 31, 2016, 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\$3 million and HK\$2 million, respectively.

BOARD COMMITTEES (CONTINUED)

Audit Committee (continued)

At its meeting held on January 16, 2017, 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 2017 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 2016, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 22 of this annual report.

The work performed by the Audit Committee during 2016 included:

- (i) review of the annual report and the annual results announcement for the year ended December 31, 2015, with a recommendation to the Board for approval;
- (ii) 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, 2015, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2016 annual general meeting;
- (iii) review of the annual report on effectiveness of internal control system under the CG Code, with a recommendation to the Board for approval;
- (iv) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2015, with a recommendation to the Board for approval;
- (v) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the performance of the internal audit function during the year;
- (vi) review of the interim report and the interim results announcement for the six months ended June 30, 2016, with a recommendation to the Board for approval;
- (vii) 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, 2016;
- (viii) review and approval of the audit strategy memorandum for the year ending December 31, 2016;
- (ix) review and approval of PricewaterhouseCoopers' pre-year end report for the year 2016;
- (x) review and approval of PricewaterhouseCoopers' audit engagement letter for the year ending December 31, 2016;
- (xi) consideration and approval of the 2016 audit and non-audit services and pre-approval of the 2017 annual budget for audit and non-audit services;

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

- (xii) review of the corporate governance report and practices for the year ended December 31, 2015 and the corporate governance disclosure for the six months ended June 30, 2016, with a recommendation to the Board for approval;
- (xiii) review and approval of the Risk Management reports on monitoring of the risk management and internal control systems of the Group during the year;
- (xiv) review of the amendment to relevant existing continuing connected transactions agreements between certain members of HKT and its subsidiaries and the Group, and of the renewal of these continuing connected transactions agreements for three financial years ending December 31, 2019 and of the related announcement by HKT Trust and HKT, with a recommendation to the Board for approval;
- (xv) review of the terms of reference of the Audit Committee;
- (xvi) review of the results of the directors' self-evaluation and the Board's self-assessment exercise for the year ended December 31, 2015 to evaluate the performance of the Board, its committees, and directors' contribution, with a recommendation to the Board for approval; and
- (xvii) 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, as well as the report on the effectiveness of the Group's risk management and internal control systems all for the year ended December 31, 2016, with recommendations 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 ("CK Hutchison") 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 CK Hutchison 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.

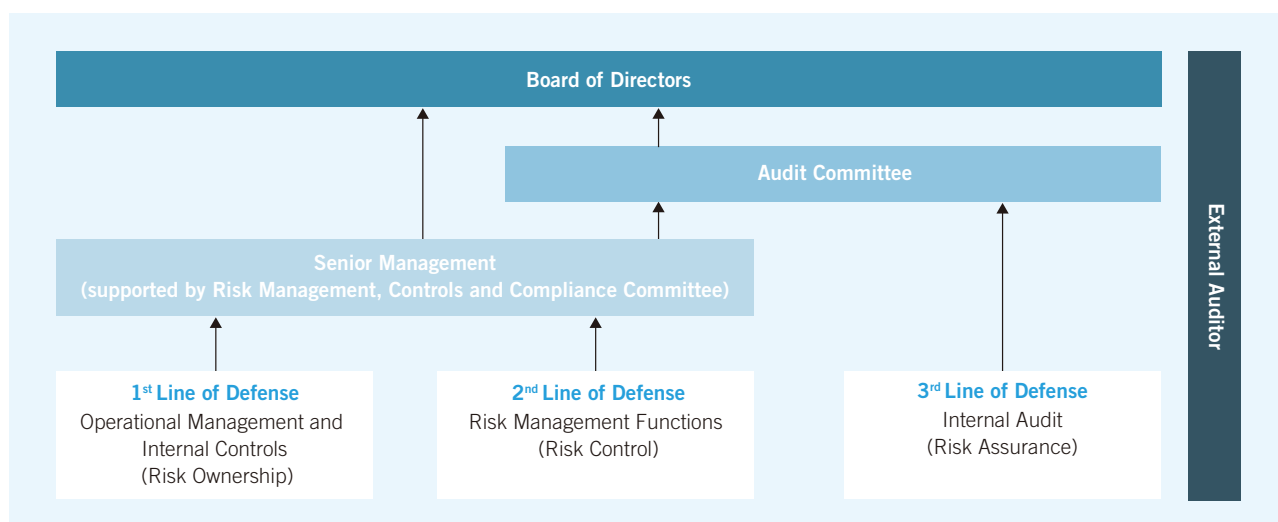
RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management, Controls and Compliance Committee and Group Internal Audit assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and controls 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. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management and Compliance department, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting, and other sub-committees as appropriate, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management and Compliance department on a quarterly basis. The Risk Management and Compliance department assesses and presents regular reports to the Risk Management, Controls and Compliance Committee at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls.

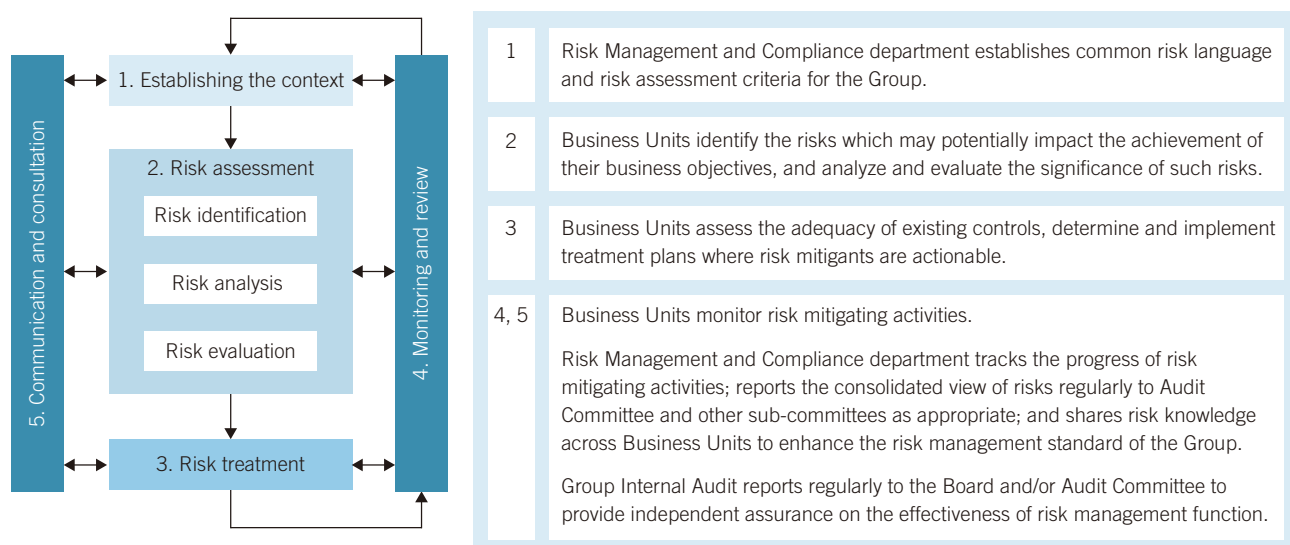
RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

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 Group. 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 Group (as the case may be) periodically.

Group Internal Audit provides independent assurance to the Board, the Audit Committee and the executive management of the Group 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.

The senior management of the Group, supported by the Risk Management, Controls and Compliance Committee, the Risk Management and Compliance department and Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

The Group adopts the principles of ISO 31000:2009 Risk Management – Principles and Guidelines as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group 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 its business practices in the future.

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can 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 investigations to him for consideration by the Audit Committee.

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

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.

During 2016, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During 2016, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments 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 Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are 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 Bernadette M. Lomas was appointed the Group General Counsel and Company Secretary of the Company in August 2016. She is also the Group General Counsel and Company Secretary of HKT Management Limited (the trustee-manager of the HKT Trust) and HKT. All directors have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, advising the Board on all corporate governance matters, and 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, 2016, Ms Lomas 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, 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).

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.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

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 208 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, 2016, there were no changes to the constitutional documents of the Company. An up to date set of Articles of Association of the Company is available on the websites of the Company and the HKEX.

By order of the Board

Bernadette M. Lomas

Group General Counsel and Company Secretary

Hong Kong, January 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue decreased by 2% to HK\$38,210 million; core revenue (excluding Mobile handset sales) increased by 2% to HK\$34,785 million. Consolidated revenue (including PCPD) decreased by 2% to HK\$38,384 million; consolidated revenue (excluding Mobile handset sales) increased by 2% to HK\$34,959 million
- Core EBITDA increased by 3% to HK\$12,506 million; consolidated EBITDA (including PCPD) increased by 3% to HK\$12,226 million
- Core profit attributable to equity holders of the Company increased by 1% to HK\$2,388 million; consolidated profit attributable to equity holders of the Company decreased by 11% to HK\$2,051 million. Basic earnings per share amounted to 26.79 HK cents
- Final dividend of 20.17 HK cents per ordinary share

MANAGEMENT REVIEW

PCCW recorded a steady performance for the year ended December 31, 2016 amidst weak economic conditions and intensified competition across all core businesses.

Core revenue for the year ended December 31, 2016 decreased slightly by 2% to HK\$38,210 million primarily due to a slowdown in Mobile handset sales. Excluding Mobile handset sales, core revenue increased by 2%. Core EBITDA increased by 3% to HK\$12,506 million reflecting the successful completion of the CSL Holdings Limited ("CSL") integration at HKT Limited ("HKT") and further investments in the over-the-top ("OTT") and Free TV segments within the Media Business.

Including PCPD, consolidated revenue for the year ended December 31, 2016 decreased by 2% to HK\$38,384 million while consolidated EBITDA increased by 3% to HK\$12,226 million. Consolidated profit attributable to equity holders of the Company was HK\$2,051 million and basic earnings per share were 26.79 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 20.17 HK cents per ordinary share for the year ended December 31, 2016.

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

OUTLOOK

In 2017, PCCW will continue to reinforce the leadership position of its core businesses of telecommunications, media and IT solutions in Hong Kong. HKT will focus on building upon the strength of its network and service offerings locally, while the Media and IT Solutions Businesses plan to forge a strong footprint in the region.

As a trusted partner for its customers, PCCW Solutions has fortified its track record of delivering consistent revenue growth and industry leading margins. PCCW Solutions aims to grow with its customers by assisting them to become digital enterprises. It is well positioned to act as a gateway for customers to expand their presence in mainland China and for mainland enterprises to expand globally. In addition, PCCW Solutions will continue to enrich its cloud capabilities, expand its data centre infrastructure, and offer solutions tailor-made for its key industry sectors.

The Now TV Business will solidify its leading position in Hong Kong by enriching its content offering and user interface, integrating seamlessly with HKT's superior network to offer the most compelling and reliable media viewing experience in Hong Kong.

The growing OTT Business aims to further raise customer awareness and engagement, broaden its library of locally relevant content and expand into selected new markets to capture opportunities arising from the changing viewing habits of customers.

The Free TV Business has been well received by viewers and advertisers as a fresh alternative. We will continue to invest in the production of appealing programs and make the content available on multiple delivery platforms. However, we remain cautious towards this competitive market particularly with the imminent entry of a new player.

The outlook for 2017 is overshadowed by global events, execution of the Brexit mechanism, and the change of the United States leadership. Within Hong Kong, we have yet to see a strong return of consumer and business confidence.

In 2016, management successfully implemented a number of initiatives in Hong Kong and in the region, planting seeds for the Group's future growth and development. In 2017, we will continue to identify suitable opportunities and monitor the external environment carefully to deliver value to shareholders. Given the dynamic environment, we will invest prudently.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Revenue							
HKT	15,974	18,755	34,729	16,388	17,459	33,847	(3)%
Now TV Business	1,425	1,513	2,938	1,391	1,509	2,900	(1)%
OTT Business	165	267	432	271	312	583	35%
Free TV Business	—	—	—	52	108	160	n/a
Solutions Business	1,500	2,094	3,594	1,587	2,235	3,822	6%
Other Businesses	25	34	59	30	30	60	2%
Eliminations	(1,106)	(1,497)	(2,603)	(1,310)	(1,852)	(3,162)	(21)%
Core revenue	17,983	21,166	39,149	18,409	19,801	38,210	(2)%
PCPD	99	66	165	115	59	174	5%
Consolidated revenue	18,082	21,232	39,314	18,524	19,860	38,384	(2)%
Cost of sales	(8,027)	(10,938)	(18,965)	(8,494)	(9,249)	(17,743)	6%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(4,372)	(4,099)	(8,471)	(4,421)	(3,994)	(8,415)	1%
EBITDA¹							
HKT	5,770	6,330	12,100	5,865	6,819	12,684	5%
Now TV Business	207	284	491	184	229	413	(16)%
OTT Business	(17)	(41)	(58)	(109)	(126)	(235)	(305)%
Free TV Business	(8)	(32)	(40)	(68)	(115)	(183)	(358)%
Solutions Business	246	442	688	254	507	761	11%
Other Businesses	(324)	(386)	(710)	(304)	(408)	(712)	0%
Eliminations	(90)	(242)	(332)	(92)	(130)	(222)	33%
Core EBITDA¹	5,784	6,355	12,139	5,730	6,776	12,506	3%
PCPD	(101)	(160)	(261)	(121)	(159)	(280)	(7)%
Consolidated EBITDA¹	5,683	6,195	11,878	5,609	6,617	12,226	3%
Core EBITDA¹ Margin	32%	30%	31%	31%	34%	33%	
Consolidated EBITDA¹ Margin	31%	29%	30%	30%	33%	32%	
Depreciation and amortization	(2,930)	(3,130)	(6,060)	(3,208)	(3,494)	(6,702)	(11)%
Gain/(Loss) on disposal of property, plant and equipment and intangible assets, net	4	(7)	(3)	2	1	3	n/a
Other gains/(losses), net	60	75	135	(53)	85	32	(76)%
Interest income	35	52	87	27	25	52	(40)%
Finance costs	(764)	(870)	(1,634)	(627)	(802)	(1,429)	13%
Share of results of associates and joint ventures	13	24	37	19	26	45	22%
Profit before income tax	2,101	2,339	4,440	1,769	2,458	4,227	(5)%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

HKT

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT Revenue	15,974	18,755	34,729	16,388	17,459	33,847	(3)%
HKT EBITDA¹	5,770	6,330	12,100	5,865	6,819	12,684	5%
HKT EBITDA¹ margin	36%	34%	35%	36%	39%	37%	
HKT Adjusted Funds Flow	1,953	2,140	4,093	2,051	2,632	4,683	14%

HKT delivered a solid set of financial results for the year ended December 31, 2016, in the midst of an increasingly challenging macroeconomic environment and intensified market competition. This performance demonstrates the resilience of all of HKT's core businesses and reflects the strong execution across its operations during the year.

Total revenue for the year ended December 31, 2016 decreased by 3% to HK\$33,847 million, impacted by lower revenue from Mobile handset sales due to the absence of marquee handsets throughout 2016. Excluding Mobile handset sales, underlying revenue for the year increased by 3% to HK\$30,422 million.

Total EBITDA for the year was HK\$12,684 million, an increase of 5% over the previous year. Adjusted funds flow for the year ended December 31, 2016 amounted to HK\$4,683 million, an increase of 14% over the previous year.

HKT recommended the payment of a final distribution of 34.76 HK cents per share stapled unit for the year ended December 31, 2016. This brings the 2016 full-year distribution to 61.85 HK cents per share stapled unit, representing the complete payout of the annual adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2016 annual results announcement released on January 13, 2017.

Now TV Business

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Now TV Business Revenue	1,425	1,513	2,938	1,391	1,509	2,900	(1)%
Now TV Business EBITDA¹	207	284	491	184	229	413	(16)%
Now TV Business EBITDA¹ margin	15%	19%	17%	13%	15%	14%	

The Now TV Business continues to face increasing industry competition and evolving consumer viewing habits. Despite these challenges, Now TV's total installed subscriber base at the end of 2016 was relatively steady at 1,303,000 reflecting our effective retention offers in response to the intense competition. Inevitably, our renewal efforts led to a softening in the exit average revenue per user ("ARPU") at the end of December 2016 to HK\$192. Consequently, Now TV's subscription revenue softened slightly during 2016. Advertising revenue on the Now TV platform was also lower reflecting the overall lackluster economic environment and weak spending sentiment in Hong Kong as well as the anticipated diversion of advertising spending to the Free TV Business.

As a result, revenue for the Now TV Business for the year declined slightly by 1% to HK\$2,900 million from HK\$2,938 million a year earlier.

EBITDA for the year fell to HK\$413 million compared to HK\$491 million a year ago, primarily due to higher content costs bid up by irrational competition and higher publicity and marketing spending to attract and retain our customers. The corresponding EBITDA margin was 14% compared to 17% a year ago.

Now TV will continue to reinforce its market leadership position by offering viewers a wide range of high quality content and a reliable viewing experience delivered across its multiple platforms.

OTT Business

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
OTT Business Revenue	165	267	432	271	312	583	35%
OTT Business EBITDA¹	(17)	(41)	(58)	(109)	(126)	(235)	(305)%

The OTT Business primarily comprises our OTT video and music services. Revenue from the OTT Business grew by 35% to HK\$583 million from HK\$432 million a year ago reflecting the full 12-month contribution and swift expansion of the OTT video service across the Asian region.

Our OTT video service expanded to 6 new markets in 2016 and is now available in a total of 18 markets, with a paying subscriber base exceeding 10 million as at the end of December 2016. In particular, our freemium service, which focuses on longer form content, is now available in Hong Kong, Singapore, Malaysia, Indonesia, India and most recently in the Philippines. Over a relatively short period of time, users of our freemium service have already demonstrated healthy engagement. They consume, on average, more than 12 videos per week, 1.2–1.6 hours of content per day and have amassed 386 million cumulative video views.

Building upon its base in Hong Kong, the MOOV music service was recently introduced in Vietnam as the first step in expanding the platform regionally.

To support the expansion of the OTT Business in 2016, startup investments were made in marketing, content and new market launches, resulting in an EBITDA cost of HK\$235 million.

We plan to continue the regional expansion of the OTT video service into select new markets as well as strengthen our content library and brand recognition.

Free TV Business

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Free TV Business Revenue	–	–	–	52	108	160	n/a
Free TV Business EBITDA¹	(8)	(32)	(40)	(68)	(115)	(183)	(358)%

The Free TV Business recorded advertising revenue of HK\$160 million, which represented 9 months of operations since its launch in April 2016. An EBITDA cost of HK\$183 million was recorded as a result of startup investments in branding, content and personnel.

ViuTV has successfully developed a following of its refreshing original format factual entertainment programs. Going forward, ViuTV will enrich its content lineup with more dramas and music programs to improve the engagement with viewers and broaden

our base. As part of our free TV licence obligations, the English-language service, ViuTVsix, will be launched as Channel 96 on March 31, 2017, providing news and public affairs programs, variety shows, infotainment, classic and latest dramas.

Operating in an environment with an entrenched incumbent player as well as the prospect of further new entrants, the Free TV Business will invest prudently to offer relevant and appealing content to viewers and a fresh choice for advertisers.

Solutions Business

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Solutions Business Revenue	1,500	2,094	3,594	1,587	2,235	3,822	6%
Solutions Business EBITDA¹	246	442	688	254	507	761	11%
Solutions Business EBITDA¹ margin	16%	21%	19%	16%	23%	20%	

Revenue of the Solutions Business for the year ended December 31, 2016 increased by 6% to HK\$3,822 million from HK\$3,594 million a year ago, principally due to the successful execution of various Enterprise Resource Planning (“ERP”) implementation projects and major technical services projects for public sector customers in Hong Kong.

Revenue with a recurring nature accounted for 55% of the total revenue, increasing from 53% a year ago. Project based revenue represented the remaining 45% of the total revenue for the year.

Revenue generated from Cloud Solutions & Infrastructure, Technical Services and Application Development & Maintenance services all recorded solid growth driven by increasing adoption by enterprise customers of cloud computing and continuing upgrade of IT systems to improve revenue productivity and cost efficiencies. As a result, revenue breakdown by service line for the year ended December 31, 2016 was: Enterprise Applications 28%, Cloud Solutions & Infrastructure 28%, Technical Services 23%, Application Development & Maintenance 16% and Business Process Outsourcing 5%.

The Solutions Business also exhibited strong growth in the Telecommunications, Travel & Hospitality and Retail & Manufacturing sectors, demonstrating our success in delivering industry specific solutions to customers. As a result, revenue by client industry for the year ended December 31, 2016 was: Telecommunications 35%, Public Sector 32%, Travel & Hospitality 10%, Hi-Tech & Media 8%, Retail & Manufacturing 7%, Banking/Finance Services & Insurance 5%, and other industries 3%.

EBITDA for the year increased by 11% to HK\$761 million from HK\$688 million a year ago, with the margin improving to 20%, driven by improved staff utilization in Hong Kong and mainland China and an increase in infrastructure demand.

As at December 31, 2016, the Solutions Business had secured orders with a combined value of HK\$6,583 million, 22% higher than a year ago. This improvement in secured orders was primarily the result of long term contracts signed with customers in the public sector in Hong Kong and to provide Cloud Solutions & Infrastructure services for customers in mainland China.

PCPD

PCPD recorded total revenue of HK\$174 million and a negative EBITDA of HK\$280 million for the year ended December 31, 2016. In 2015, PCPD's total revenue was HK\$165 million and negative EBITDA was HK\$261 million.

Pacific Century Place Jakarta, PCPD's Premium Grade A office building in Jakarta, Indonesia, was topped out on July 31, 2016 with completion expected in the second quarter of 2017. In addition to Citibank Indonesia, Sotheby's Hong Kong Limited and FWD, the NorthStar Group has agreed to relocate its office to the building. To date, approximately 20% of the office floor space has been secured by tenants.

The project in Japan is proceeding as scheduled with the residential portion anticipated for pre-sale in the first quarter of 2017 and the hotel to be unveiled in late 2019. The project in Thailand is continuing as planned with early discussions with a local developer having commenced regarding the first phase of the project.

For a more detailed review of the performance of PCPD, please refer to its 2016 annual results announcement released on January 16, 2017.

COSTS

Cost of Sales

For the year ended December 31, HK\$ million	2015			2016			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT	6,544	8,995	15,539	6,973	7,472	14,445	7%
The Group (excluding PCPD)	8,003	10,908	18,911	8,457	9,230	17,687	6%
Consolidated	8,027	10,938	18,965	8,494	9,249	17,743	6%

HKT's cost of sales for the year ended December 31, 2016 decreased by 7% to HK\$14,445 million. Gross margin was 57% in 2016, as compared to 55% a year ago primarily due to the slowdown in Mobile handset sales which have a lower gross margin.

Other Businesses

Other Businesses primarily comprises corporate support functions and the wireless broadband business in the United Kingdom under the brand name, Relish, which currently operates in the Central London region. Revenue from Other Businesses was HK\$60 million for the year ended December 31, 2016 (2015: HK\$59 million) driven by the progress in Relish's business, while the cost of the Group's Other Businesses was HK\$712 million in 2016 (2015: HK\$710 million).

Eliminations

Eliminations for the year ended December 31, 2016 were HK\$3,162 million (2015: HK\$2,603 million). The increase reflected the growing collaboration amongst various business segments of the Group to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers.

Cost of sales for the core businesses decreased by 6%. Gross margin for the core businesses was 54% in 2016, as compared to 52% a year ago mainly driven by lower cost of sales at HKT.

The Group's consolidated total cost of sales for the year ended December 31, 2016 decreased by 6% to HK\$17,743 million.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") decreased marginally by 1% to HK\$8,415 million reflecting the cost synergies from the successful integration of CSL and investments made in the Media Business for the OTT and Free TV segments. As a result, operating costs to revenue ratio was stable at 22%.

Depreciation and amortization expenses increased by 11% to HK\$6,702 million for the year ended December 31, 2016, from HK\$6,060 million in 2015. Depreciation expenses declined by 17% due to the write-off of certain depleted network assets during the CSL integration and the review of the useful lives of new network assets that were deployed as part of the CSL integration. Amortization expenses increased by 26% mainly due to increased investments in content for the OTT and Free TV Businesses. Content related amortization for the year was HK\$396 million.

General and administrative expenses, therefore, increased by 4% to HK\$15,114 million for the year ended December 31, 2016.

EBITDA¹

For the year ended December 31, 2016, core EBITDA increased by 3% to HK\$12,506 million reflecting a lower cost of sales and a stable performance from all business units. The core EBITDA margin increased to 33% from 31% a year ago.

Consolidated EBITDA increased by 3% to HK\$12,226 million for the year representing a margin of 32%.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2016 was HK\$52 million and finance costs decreased by 13% to HK\$1,429 million reflecting the savings from the refinancing of the US\$500 million 5.25% guaranteed notes and the US\$500 million 4.25% guaranteed notes in July 2015 and February 2016, respectively. As a result, average cost of debt was 2.7% in 2016, as compared to 2.9% a year ago and net finance costs decreased by 11% to HK\$1,377 million for the year ended December 31, 2016.

Income Tax

Income tax expense for the year ended December 31, 2016 was HK\$395 million, as compared to HK\$447 million a year ago, representing an effective tax rate of 9% for the year. There was higher tax expense at HKT due to the increase in taxable profits in 2016 and the full utilization of the tax loss of a company resulting from the CSL integration in 2015, partly offset by the recognition of a deferred income tax asset resulting from a loss-making company turning profitable in 2016.

At PCCW there occurred in 2016 the recognition of a deferred income tax asset resulting from a loss-making company and a credit upon reassessment of certain previously recognized tax items and, in 2015, the reversal of a prior year overseas tax provision from the disposal of an overseas subsidiary.

Non-controlling Interests

Non-controlling interests were HK\$1,781 million for the year ended December 31, 2016 (2015: HK\$1,698 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2016 decreased by 11% to HK\$2,051 million (2015: HK\$2,295 million).

LIQUIDITY AND CAPITAL RESOURCES

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

In July 2016, HKT took advantage of a favorable market window post Brexit and raised US\$750 million 10-year guaranteed notes at a coupon of 3.00%. The proceeds were used for general corporate purposes including the repayment of existing indebtedness. The Group's gross debt² was HK\$46,428 million as at December 31, 2016 (December 31, 2015: HK\$42,722 million) with the increase primarily attributable to the payment by HKT of HK\$1,950 million in August 2016 to renew its mobile spectrum. Cash and short-term deposits totaled HK\$5,210 million as at December 31, 2016 (December 31, 2015: HK\$7,504 million).

As at December 31, 2016, the Group had a total of HK\$38,786 million in committed bank loan facilities available for liquidity management, of which HK\$13,133 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK\$27,181 million, of which HK\$6,038 million remained undrawn.

The Group's gross debt² to total assets was 58% as at December 31, 2016 (December 31, 2015: 57%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2016, 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 EXPENDITURE³

Group capital expenditure for the year ended December 31, 2016 was HK\$3,227 million (2015: HK\$3,534 million), of which HKT accounted for about 89% in 2016 (2015: 86%). A significant proportion of the capital investments made by the Group for the year was attributable to the network integration for the Mobile Business and the continued capital investment for the Telecommunications Services Business at HKT. The remainder of the investments was largely for the upgrading of broadcasting equipment in the Media Business and enhancement of data centre infrastructure in the Solutions Business.

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 currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2016, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

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

CHARGE ON ASSETS

As at December 31, 2016, certain assets of the Group with an aggregate carrying value of HK\$3,373 million (2015: HK\$2,242 million) and performance guarantee of approximately HK\$161 million (2015: HK\$161 million) in relation to the construction of the Premium Grade A office building in Jakarta, Indonesia were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2015	2016
Performance guarantees	2,391	923
Others	90	76
	2,481	999

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

HUMAN RESOURCES

The Group had over 25,000 employees as at December 31, 2016 (2015: 25,400) located in over 44 countries and cities. About 61% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 20.17 HK cents (2015: 17.04 HK cents) per ordinary share for the year ended December 31, 2016 to shareholders whose names appear on the register of members of the Company on Friday, March 24, 2017, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Friday, March 17, 2017. An interim dividend of 8.16 HK cents (2015: 7.96 HK cents) per ordinary share for the six months ended June 30, 2016 was paid to shareholders of the Company in October 2016.

FINANCIAL INFORMATION

45	Report of the Directors
74	Independent Auditor's Report
82	Consolidated Income Statement
83	Consolidated Statement of Comprehensive Income
84	Consolidated Statement of Changes in Equity
86	Consolidated and Company Statements of Financial Position
89	Consolidated Statement of Cash Flows
90	Notes to the Consolidated Financial Statements
207	Five Year Financial Summary

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, 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and the principal activities of the Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales; the provision of interactive pay-TV services, Internet portal digital media entertainment platform in the Hong Kong Special Administrative Region (“Hong Kong”) and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited (“HKTVE”), PCCW also operates a domestic free television service in Hong Kong.

The principal activities of the Company's principal subsidiaries, and the principal associates and joint venture of the Group 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 fair 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 2016 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 10, pages 11 to 13 and pages 35 to 43 respectively. The above discussions form part of this report.

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 from time to time decide to delay, change, modify or forgo certain 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. To mitigate such risks, the Group regularly engages subject matter experts to advise on relevant matters and to provide notification of pending changes and that may impact on the Group's activities.

BUSINESS REVIEW (CONTINUED)

Principal Risks and Uncertainties (continued)

Competition – The Group operates in markets and industries where the regulation is pro-competition and pro-consumer. This has led to increased competition and 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, and continues to adapt its business strategies in light of the changed marketplace.

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 is aware of the increasing possibility that key interest rates may rise in the foreseeable future and that if not appropriately managed, these may have a significant impact on the Group's cost of financing.

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 currencies including United States dollars. Accordingly, forward and swap contracts are used to manage the Group's 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. Network performance is closely monitored by teams of experienced professionals to ensure that the network is reliable and available to support business growth and business 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. The Group makes extensive use of multiple channels to keep informed of emerging cyber security threats and to identify and implement measures intended to mitigate the occurrence and/or consequences of such risks being realized.

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.

BUSINESS REVIEW (CONTINUED)

Principal Risks and Uncertainties (continued)

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. The Group constantly reviews its human resources philosophy and strategy to ensure that its human resources policies, processes and practices are able to facilitate its organization development.

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), the Personal Data (Privacy) Ordinance (Cap. 486) and the Payment Systems and Stored Value Facilities Ordinance (Cap. 584). The failure to be responsive to 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.

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. PCCW is also a member of various green groups, including WWF-Hong Kong, Friends of the Earth (HK) and The Green Earth.

In 2016, PCCW continued to voluntarily disclose its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository.

To minimize light nuisance, PCCW and its telecommunications flagship, HKT Limited (“HKT”) have been supporting the WWF's annual Earth Hour campaign for years. In April 2016, PCCW became a signatory to the “Charter on External Lighting” of the Environment Bureau. Under the Charter, PCCW complies with the requirement to switch off at designated hours lighting installations with decorative, promotional or advertising purposes which affect the outdoor environment.

BUSINESS REVIEW (CONTINUED)

Environmental Policies and Performance (continued)

In August, HKT announced the formation of an equal joint venture, Smart Charge (HK) Limited, with CLP Holdings Limited to provide total electric vehicle charging solutions and to promote electric mobility for a cleaner environment in Hong Kong.

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 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 November 2016, the HKT Limited Group further extended electronic billing arrangement to its residential telephone line customers in a bid to reduce paper consumption. To promote the green living concept among staff, green workshops and conservation days were organized periodically. HKT also donated surplus resources such as outdated uniforms to charitable organizations for the people in need.

In 2016, PCCW was awarded the Good Level of Wastewi\$e Certificate by the Environmental Protection Department. In December, PCCW was awarded the CarbonCare® Action Label 2016 for implementing innovative carbon reduction solutions. PCCW also won the Gold Award of Save Resources Mission and the Bronze Award of Save Energy Mission of the Green Missions program organized by Friends of the Earth (HK).

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 pre-certification of LEED Platinum Grade and Greenship Design Recognition Platinum Grade awarded by USGBC and Green Building Council Indonesia respectively, its major office building project in Jakarta, Indonesia was named as a Highly Commended Best Office Architectural Design in the Indonesia Property Awards 2016. To recognize its contribution in promoting green building and sustainability to the local industry, PT Prima Bangun Investama (the local subsidiary company of Pacific Century Premium Developments in Indonesia) was also elected as the Winner of the Special Recognition in Sustainable Development in the same event.

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 Dialogue Experience: Empower Program and Hong Kong Society for the Aged, we have further promoted inclusion for disabled talents and elderly employees in the workplace. 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.

BUSINESS REVIEW (CONTINUED)

Relationships with Stakeholders (continued)

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, online, or at the HKT Limited Group's retail shops and customer service centers. 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 more than 50 awards in different categories at the Hong Kong Tourism Board, Hong Kong Call Centre Association, Hong Kong Retail Management Association and Mystery Shopper Service Association in 2016. In addition, the HKT Limited Group has in place 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. To cultivate future IT professionals, 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. HKT has also participated in The Women's Foundation's "Girls Go Tech" program offering free workshops on computer coding skills and digital culture to girls from underprivileged families.

The Group's corporate volunteer team, comprising staff volunteers and their families, last year ran 26 ongoing programs and 15 special programs for various charities and social services groups. In 2016, 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 2015 (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 2015. The volunteer team also won the Bronze Award in the volunteer team category of the Hong Kong Corporate Citizenship Programme organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education in 2016. In appreciation of the commitment of staff volunteers, PCCW has in place a Volunteer Appreciation Scheme 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. In 2016, PCCW also received the Social Capital Builder Logo Awards from the Community Investment and Inclusion Fund (CIIF) of the Labour and Welfare Bureau.

BUSINESS REVIEW (CONTINUED)

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 Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486), the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), 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 HKTVE, was granted a free television programme service licence in April 2015 and HKTVE has launched its free television services in April 2016. 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.

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.

BUSINESS REVIEW *(CONTINUED)*

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

Personal Data (Privacy) Ordinance ("PDPO")

The PDPO aims to protect the privacy rights of a person in relation to personal data and sets out six data protection principles which should be adhered to when personal data is received or handled. Non-compliance of such data protection principles may result in enforcement notices from the Privacy Commissioner for Personal Data and may constitute an offence under the PDPO. The Group has various internal policies and procedures as well as regular reviews, training and audits to ensure that personal data received from customers is handled with care and the data protection principles are followed. The Group also has designated data protection officers in ensuring its compliance with the PDPO.

GROUP RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated income statement on page 82.

An interim dividend of 8.16 HK cents per ordinary share (2015: 7.96 HK cents per ordinary share), totaling approximately HK\$629 million, was paid to shareholders of the Company in October 2016.

The Board has recommended the payment of a final dividend of 20.17 HK cents per ordinary share (2015: 17.04 HK cents per ordinary share) for the year ended December 31, 2016, subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

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 207.

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 (i) a total of 88,287,570 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 17.04 HK cents per share for the year ended December 31, 2015 and the interim dividend of 8.16 HK cents per share for the six months ended June 30, 2016 at an average price of HK\$5.096 and HK\$4.952 per share respectively pursuant to the respective scrip dividend schemes; and (ii) 10,000,000 ordinary shares for grant of awards pursuant to the Company's share award scheme for an aggregate consideration of HK\$100,000.

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, 2016, 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, BG Srinivas, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Li Fushen, Frances Waikwun Wong and David Christopher Chance 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).

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, 2016, 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	–	–	307,694,369 (Note 1(a))	1,928,842,224 (Note 1(b))	2,236,536,593	28.97%
Srinivas Bangalore Gangaiah	103,799	–	–	362,273 (Note 2)	466,072	0.01%
Hui Hon Hing, Susanna	3,464,886	–	–	1,404,388 (Note 2)	4,869,274	0.06%
Lee Chi Hong, Robert	992,600 (Note 3(a))	511 (Note 3(b))	–	–	993,111	0.01%
Tse Sze Wing, Edmund	–	367,479 (Note 4)	–	–	367,479	0.005%
Dr The Hon Sir David Li Kwok Po	1,132,611	–	–	–	1,132,611	0.01%

Notes:

- (a) Of these Shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 269,471,956 Shares and Eisner Investments Limited ("Eisner") held 38,222,413 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 175,312,270 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 175,312,270 Shares held by PCGH; and
 - (ii) a deemed interest in 1,753,529,954 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 88.58% 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 1,753,529,954 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 awards 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 HKT Trust and HKT Limited, an Associated Corporation of the Company

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 (Note 1(a))	144,786,423 (Note 1(b))	211,034,037	2.79%
Srinivas Bangalore Gangaiah	–	–	–	116,350 (Note 2)	116,350	0.002%
Hui Hon Hing, Susanna	1,870,653	–	–	938,396 (Note 3)	2,809,049	0.04%
Lee Chi Hong, Robert	50,924 (Note 4(a))	25 (Note 4(b))	–	–	50,949	0.0007%
Tse Sze Wing, Edmund	–	246,028 (Note 5)	–	–	246,028	0.003%
Dr The Hon Sir David Li Kwok Po	200,000	–	–	–	200,000	0.003%

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 HKT Trust and HKT Limited, an Associated Corporation of the Company (continued)

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 (the "Trustee-Manager", 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.
2. These interests represented an award made to BG Srinivas which was 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. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to the relevant award schemes of the Company and HKT, namely the Purchase Scheme and 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**".
4. (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.
5. These Share Stapled Units were held by the spouse of Tse Sze Wing, Edmund.

Save as disclosed in the foregoing, as at December 31, 2016, 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 9.43% of the Shares in issue as at that date.
- (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.

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

(CONTINUED)

1. The Company (continued)

A. Share Option Scheme (continued)

- (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, 2016.

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 companies. Eligible participants of the Subscription Scheme include employees of the Company and its participating companies, 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.

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

(CONTINUED)

1. The Company (continued)

B. Share Award Schemes (continued)

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).

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, 2016, an aggregate of 4,546,361 Shares and 1,123,994 Share Stapled Units were awarded pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 258,475 Shares and 116,350 Share Stapled Units made to BG Srinivas, and 913,720 Shares and 154,022 Share Stapled Units made to Hui Hon Hing, Susanna (both of them are directors of the Company). Additionally, no Shares have lapsed and/or been forfeited and 4,033,838 Shares have vested; and 30,052 Share Stapled Units have lapsed and/or been forfeited and 99,453 Share Stapled Units have vested during the year. As at December 31, 2016, 7,505,823 Shares and 1,184,782 Share Stapled Units awarded pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the year ended December 31, 2016, an aggregate of 3,714,867 Shares were awarded pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 431,999 Shares have lapsed and/or been forfeited and 4,044,893 Shares have vested during the year. As at December 31, 2016, 5,298,675 Shares awarded pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2016, no Share Stapled Units have been awarded to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2016 and December 31, 2016, no Share Stapled Units awarded pursuant to the Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 12,804,498 Shares and 1,184,782 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 0.02% 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 the Trustee-Manager (the “Trustee-Manager Board”) and the HKT Board shall be entitled to offer to grant a Share Stapled Unit option to any eligible participant whom 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. The Trustee-Manager 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, 2016.

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.

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)

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.

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, 2016, an aggregate of 2,160,944 Share Stapled Units were awarded subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including an award in respect of 257,280 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 154,141 Share Stapled Units have lapsed and/or been forfeited and 4,399,558 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 5,764,257 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.08% 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, 2016.

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 Scheme

PCPD operates a share option scheme which was adopted by its shareholders at PCPD's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by the shareholders of the Company (the "2015 PCPD Scheme"). Under the 2015 PCPD Scheme, 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.

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

(CONTINUED)

3. Pacific Century Premium Developments Limited ("PCPD") *(continued)***Share Option Scheme** *(continued)*

- (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 approximately 10% of the PCPD Shares in issue as at that date.
- (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 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 2015 PCPD Scheme since its adoption and up to and including December 31, 2016.

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, 2016, 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, 2016 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, 2016, 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 Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Interests			
PCRD		1,753,529,954	22.72%
PCGH	1	1,928,842,224	24.99%
Star Ocean Ultimate Limited	2 and 3	1,928,842,224	24.99%
The Ocean Trust	2	1,928,842,224	24.99%
The Starlite Trust	2	1,928,842,224	24.99%
OS Holdings Limited	2	1,928,842,224	24.99%
Ocean Star Management Limited	2	1,928,842,224	24.99%
The Ocean Unit Trust	2	1,928,842,224	24.99%
The Starlite Unit Trust	2	1,928,842,224	24.99%
Star Ocean Ultimate Holdings Limited	3	1,928,842,224	24.99%
Fung Jenny Wai Ling	4	1,928,842,224	24.99%
Huang Lester Garson	4	1,928,842,224	24.99%
中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited [#]) ("Unicom")	5	1,424,935,885	18.46%

Notes:

- These interests represented (i) PCGH's beneficial interests in 175,312,270 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 88.58% of the issued share capital of PCRD) in 1,753,529,954 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.

[#] For identification only

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

As at December 31, 2016, 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 Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Interests			
Ocean Star Investment Management Limited	Note	1,928,842,224	24.99%

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, 2016.

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, 2016, 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 ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	(Note)
	Cheung Kong Property Holdings Limited ("CK Property") and its subsidiaries	Property development and investment, hotel and serviced suite operation and property and project management	(Note)
Lu Yimin	Unicom and its subsidiaries	Telecommunications business and other related businesses	General Manager and Vice Chairman of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Telecommunications business and other related businesses	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Telecommunications business and other related businesses	Executive Director and President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Telecommunications business and other related businesses	Director, Deputy General Manager and Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	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	Telecommunications business and other related businesses	Director and Vice President of Unicom (resigned with effect from November 1, 2016)
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom A-Share (resigned with effect from November 1, 2016)
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Senior Vice President of Unicom HK (resigned with effect from November 1, 2016)
	China Communications Services Corporation Limited ("CCSCL")	Network construction, outsourcing service, content applications and other services	Non-Executive Director of CCSCL

Note:

Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CK Hutchison 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 CK Hutchison and CK Property. Certain businesses of CK Hutchison and CK Property may compete with certain aspects of the businesses of the Group during the year.

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 businesses.

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.

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\$3.69 million (2015: HK\$1.21 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2016, 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, 2016, 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 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 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 or contracts of a similar nature.

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)**

During 2016, Hong Kong Telecommunications (HKT) Limited (“HKTL”), an indirect wholly-owned subsidiary of HKT which in turn is a subsidiary of the Company, entered into two customized fibre network right of use agreements with China Unicom (Hong Kong) Operations Limited, a subsidiary of the Unicom Group, relating to the grant of rights to use the capacity of the customized fibre available on HKTL’s network to the Unicom Group for a duration of 15 years. These contracts are not materially different in nature to the IRU Contracts. They are categorized as 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, a waiver from strict compliance with Rule 14A.52 of the Listing Rules in relation to the execution of these contracts with the Unicom Group with a duration exceeding three years was granted by the Stock Exchange to the Company. Such waiver applies until December 31, 2017.

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, 2016 HK\$’000	Annual cap for the Unicom Group for the financial year ended December 31, 2016 HK\$’000
(1) Provision of data services by the Group to the Unicom Group	139,111	550,000
(2) Provision of data services by the Unicom Group to the Group	131,608	650,000
(3) Provision of systems integration services by the Group to the Unicom Group	5,983	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, 2016 was HK\$18,541,256 which did not exceed the annual cap for the ninth year of the 15-year term of HK\$36,777,000.

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 2016.

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, 2016 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, 2016 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the relevant 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, 2016 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

Bernadette M. Lomas

Group General Counsel and Company Secretary

Hong Kong, January 16, 2017

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

TO THE SHAREHOLDERS OF PCCW LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of PCCW Limited (the “Company”) and its subsidiaries (the “Group”) (the “Group financial statements”) set out on pages 82 to 206, which comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements of the current period. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong

Key audit matters identified in our audit are summarized as follows:

- Revenue recognition
- Significant judgements on current income tax liabilities and deferred income tax assets
- Valuation of investment property under development in Indonesia
- Carrying values of properties under development and properties held for development
- Impairment assessment on the Group's key businesses

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition <i>Refer to note 6 in the Group financial statements.</i> The Group recognized revenue of HK\$38,384 million for the year ended December 31, 2016, including external revenue from HKT Limited ("HKT"), the Media Business and the Solutions Business of HK\$33,163 million, HK\$2,362 million and HK\$2,630 million, respectively. Significant effort was spent auditing the revenue recognized by HKT and the Media Business due to the large volume of transactions and complexity of the systems used and the use of management estimates to determine the fair values of elements to allocate revenue from multiple-element arrangements. The Solutions Business recognized revenue according to the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period, including estimates of the contract costs incurred to date and the total estimated contract costs with reference to the service milestones of the relevant contracts, required individual consideration and management judgement.	Our procedures in relation to revenue recognition included: • Testing the IT control environment in which ordering, service provisioning, metering, rating and billing systems for HKT and the Media Business reside; • Assessing management's estimates used to determine the fair values of elements to allocate revenue from multiple-element arrangements with reference to the Group's accounting policies; • Testing the effectiveness of controls over calculation and allocation of revenue of HKT and the Media Business to appropriate periods and the separable elements of multiple-element arrangements; • Testing, on a sample basis, the accuracy of sales transaction records and the allocation of revenues from multiple-element arrangements of HKT and the Media Business from the general ledger to the underlying invoices, contractual documentation and evidence of cash receipts; and • Testing, on a sample basis, the amount and timing of the Solutions Business revenue recognized having regard to the contract costs incurred to date and the total estimated contract costs with reference to the service milestones of the relevant contracts. We found the revenue recorded to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Significant judgements on current income tax liabilities and deferred income tax assets <i>Refer to notes 12 and 33 in the Group financial statements.</i> The Group operates across several jurisdictions and is subject to Hong Kong and Overseas tax. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatment of certain matters. Significant judgement was used to estimate the outcome of these matters and the appropriate amount of current income tax liabilities. The Group has recognized deferred income tax assets of HK\$1,196 million related to available tax losses as at December 31, 2016. Management has considered the future taxable income and tax planning strategies in determining whether the Group will be able to utilize the available tax losses and the appropriate amount of deferred income tax assets to be recognized.	Our procedures in relation to significant judgements on current income tax liabilities and deferred income tax assets included: • Discussing with management the basis of the current income tax liabilities and the estimated outcome of the queries raised by relevant tax authorities; • Assessing the appropriateness of the current income tax provision at the year end, according to the tax rules in different jurisdictions; • Validating available tax losses to relevant financial statements and tax assessments; and • Assessing the reasonableness of the deferred income tax assets and the projected future taxable profits, based on our knowledge of the business and industry. We found the current income tax provisions and deferred income tax assets recognized to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment property under development in Indonesia <i>Refer to note 16 to the Group financial statements.</i> The Group's investment properties were carried at HK\$3,216 million as at December 31, 2016 out of which HK\$3,188 million related to the investment property under development in Indonesia. Management has performed an internal valuation to assess the fair value of the investment property under development in Indonesia with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. The valuation was inherently subjective due to the significant estimates used which included the estimated sales price of similar completed properties and the outstanding construction costs to complete. Significant changes in these estimates could result in material changes to the valuation of the property.	Our procedures in relation to management's valuation of investment property under development in Indonesia included: • Challenging management on the valuation methodologies and key estimates used; • Involving our internal valuation specialists to compare the estimated sales prices of similar completed properties in the valuation process to our independently formed market expectations; • Validating the construction costs incurred to date to quantity surveyor reports and payment records; and • Validating the estimated total development costs to the main contractor agreement, quantity surveyor reports and other supporting documents to assess the appropriateness of the construction costs to complete. We found the valuation of the investment property to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Carrying values of properties under development and properties held for development</i> <i>Refer to note 18 to the Group financial statements.</i>	
The carrying values of properties under development and properties held for development were HK\$380 million and HK\$544 million respectively as at December 31, 2016.	Our procedures in relation to management's assessment of the carrying values of properties under development and properties held for development included:
For the properties under development, management determined the net realizable value of the properties using the discounted cash flow forecast, which involved significant estimates and assumptions such as selling prices, construction costs and discount rate.	Assessing the appropriateness of the methodologies used by management for the assessments of the net realizable value of properties under development and properties held for development;
For the properties held for development, management determined the net realizable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.	For the properties under development, comparing the estimated selling prices, construction costs and discount rate used in the assessment to our independently formed market expectation and country-specific market and industry data. We also performed sensitivity analysis on the assumptions used in the assessment; and
Based on their determination of these net realizable values, management concluded that the carrying values of the properties under development and properties held for development were appropriate.	For the properties held for development, comparing management's estimates of selling prices for similar properties to market data. We also considered whether the adjusting factors used in management's assessment fell within a reasonable range with reference to our property industry knowledge in the country which the properties are located. We also performed sensitivity analysis on the assumptions used in the assessment.
	We found the carrying values of the properties under development and properties held for development to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment on the Group's key businesses <i>Refer to note 19 in the Group financial statements.</i>	
As at December 31, 2016, the Group has goodwill of HK\$18,095 million, property, plant and equipment of HK\$19,701 million and intangible assets of HK\$11,982 million. For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify CGUs and to determine the key assumptions, including operating margins, terminal growth rates and discount rates, underlying the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill, property, plant and equipment and intangible assets.	Our procedures in relation to management's impairment assessment of the Group's key businesses included: - Assessing management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business; - Assessing the value-in-use calculations methodology adopted by management; - Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; - Assessing the reasonableness of key assumptions (including operating margins, terminal growth rates and discount rates) based on our knowledge of the business and industry; and - Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets. We found management's conclusion that there was no impairment in respect of the goodwill, property, plant and equipment and intangible assets to be supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all the information included in the PCCW Limited 2016 annual report other than the Group financial statements and our auditor's report thereon ("Other Information").

Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Group Financial Statements

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, January 16, 2017

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2016

In HK\$ million (except for earnings per share)	Note(s)	2015	2016
Revenue	6 & 7	39,314	38,384
Cost of sales		(18,965)	(17,743)
General and administrative expenses		(14,534)	(15,114)
Other gains, net	8	135	32
Interest income		87	52
Finance costs	10	(1,634)	(1,429)
Share of results of associates		52	66
Share of results of joint ventures		(15)	(21)
Profit before income tax	7 & 9	4,440	4,227
Income tax	12	(447)	(395)
Profit for the year		3,993	3,832
Attributable to:			
Equity holders of the Company		2,295	2,051
Non-controlling interests		1,698	1,781
Profit for the year		3,993	3,832
Earnings per share	14		
Basic		30.58 cents	26.79 cents
Diluted		30.54 cents	26.76 cents

The notes on pages 90 to 206 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

In HK\$ million	2015	2016
Profit for the year	3,993	3,832
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit obligations	(18)	(26)
	(18)	(26)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(402)	(165)
Available-for-sale financial assets:		
– changes in fair value	(10)	(7)
– transfer to consolidated income statement on disposal/impairment	(1)	14
Cash flow hedges:		
– effective portion of changes in fair value	(309)	787
– transfer from equity to consolidated income statement	(67)	47
	(789)	676
Other comprehensive (loss)/income for the year	(807)	650
Total comprehensive income for the year	3,186	4,482
Attributable to:		
Equity holders of the Company	1,690	2,434
Non-controlling interests	1,496	2,048
Total comprehensive income for the year	3,186	4,482

The notes on pages 90 to 206 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

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 consolidated income statement:			
Remeasurements of defined benefit obligations		(18)	–
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		(345)	(57)
Available-for-sale financial assets:			
– changes in fair value		10	(20)
– transfer to consolidated income statement on disposal		(1)	–
Cash flow hedges:			
– effective portion of changes in fair value		(213)	(96)
– transfer from equity to consolidated 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 shares of PCCW Limited (“PCCW Shares”) under share award scheme		(29)	–
Purchases of share stapled units of HKT Trust and HKT Limited (“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

In HK\$ million

		2016	
	Note(s)	Attributable to equity holders of the Company	Non-controlling interests
			Total equity
At January 1, 2016		11,024	2,318
Total comprehensive income for the year			
Profit for the year		2,051	1,781
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to consolidated income statement:			
Remeasurements of defined benefit obligations		(26)	–
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		(135)	(30)
Available-for-sale financial assets:			
– changes in fair value		(6)	(1)
– transfer to consolidated income statement on impairment		(4)	18
Cash flow hedges:			
– effective portion of changes in fair value		525	262
– transfer from equity to consolidated income statement		29	18
Other comprehensive income		383	267
Total comprehensive income for the year		2,434	2,048
Transactions with equity holders			
Purchases of PCCW Shares under share award scheme		(3)	–
Purchases of Share Stapled Units under share award schemes		(3)	–
Employee share-based compensation		68	12
Vesting of PCCW Shares and Share Stapled Units under share award schemes		(12)	12
Distribution for Share Stapled Units granted under share award schemes		(3)	1
PCCW Shares issued in lieu of cash dividends	29	449	–
Dividend paid in respect of previous year	13 & 32	(1,299)	–
Dividend declared and paid in respect of the current year	13 & 32	(629)	–
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,587)
Total contributions by and distributions to equity holders		(1,432)	(1,562)
Change in ownership interests in subsidiaries that do not result in a loss of control		–	(1)
Settlement of balance with a non-controlling shareholder of a subsidiary		–	(53)
Total changes in ownership interests in subsidiaries that do not result in a loss of control		–	(54)
Total transactions with equity holders		(1,432)	(1,616)
At December 31, 2016		12,026	2,750

The notes on pages 90 to 206 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2016

In HK\$ million	Note*	The Group		(Additional information)	
		2015	2016	The Company 2015	2016
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	18,713	19,701	—	—
Investment properties	16	2,084	3,216	—	—
Interests in leasehold land	17	442	422	—	—
Properties held for/under development	18	851	924	—	—
Goodwill	19	18,183	18,095	—	—
Intangible assets	20	10,526	11,982	—	—
Interests in subsidiaries		—	—	17,072	17,072
Interests in associates	22	618	725	—	—
Interests in joint ventures	23	485	628	—	—
Available-for-sale financial assets	24	806	1,057	—	—
Derivative financial instruments	28	—	289	—	12
Deferred income tax assets	33(a)	1,066	1,134	—	—
Other non-current assets		845	897	—	—
		54,619	59,070	17,072	17,084
Current assets					
Amounts due from subsidiaries		—	—	18,862	21,281
Sales proceeds held in stakeholders' accounts	25(a)	513	510	—	—
Restricted cash	25(b)	106	139	—	—
Prepayments, deposits and other current assets	25(c)	7,106	9,019	36	19
Inventories	25(d)	774	943	—	—
Amounts due from related companies	5(c)	90	98	—	—
Derivative financial instruments	28	60	—	—	—
Trade receivables, net	25(e)	3,969	3,778	—	—
Tax recoverable		17	16	—	—
Short-term deposits		1	453	—	—
Cash and cash equivalents	35(d)	7,503	4,751	815	587
		20,139	19,707	19,713	21,887
Assets of disposal group classified as held for sale	25(h)	—	807	—	—
		20,139	20,514	19,713	21,887

In HK\$ million	Note*	The Group		(Additional information) The Company	
		2015	2016	2015	2016
Current liabilities					
Short-term borrowings	25(f)	(3,879)	(457)	–	–
Trade payables	25(g)	(2,494)	(2,731)	–	–
Accruals and other payables		(6,763)	(6,844)	(12)	(11)
Amount payable to the Government under the Cyberport Project Agreement	27	(322)	(321)	–	–
Carrier licence fee liabilities	34	(448)	(173)	–	–
Amounts due to related companies	5(c)	(69)	(35)	–	–
Advances from customers		(2,168)	(2,160)	–	–
Current income tax liabilities		(1,350)	(1,327)	–	–
		(17,493)	(14,048)	(12)	(11)
Liabilities of disposal group classified as held for sale	25(h)	–	(36)	–	–
		(17,493)	(14,084)	(12)	(11)
Non-current liabilities					
Long-term borrowings	26	(38,090)	(45,131)	(2,690)	(3,978)
Amounts due to subsidiaries		–	–	(2,987)	(3,024)
Derivative financial instruments	28	(586)	(98)	(143)	(84)
Deferred income tax liabilities	33(a)	(2,775)	(2,916)	–	–
Deferred income		(1,079)	(1,071)	–	–
Defined benefit liability	30(a)	(133)	(154)	–	–
Carrier licence fee liabilities	34	(627)	(544)	–	–
Other long-term liabilities		(633)	(810)	–	–
		(43,923)	(50,724)	(5,820)	(7,086)
Net assets		13,342	14,776	30,953	31,874

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2016

In HK\$ million	Note*	(Additional information)			
		The Group		The Company	
		2015	2016	2015	2016
CAPITAL AND RESERVES					
Share capital	29	12,505	12,954	12,505	12,954
Reserves	32	(1,481)	(928)	18,448	18,920
Equity attributable to equity holders of the Company		11,024	12,026	30,953	31,874
Non-controlling interests		2,318	2,750	–	–
Total equity		13,342	14,776	30,953	31,874

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company (the “Board”) on January 16, 2017 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, 2016 and 2015 is presented only as additional information to these consolidated financial statements. The Company statement of financial position as at December 31, 2016 as presented in note 4 was approved and signed by the directors.

The notes on pages 90 to 206 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

In HK\$ million	Note	2015	2016
NET CASH GENERATED FROM OPERATING ACTIVITIES	35(a)	12,518	9,953
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	8
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	35(c)	(452)	–
Purchases of property, plant and equipment		(3,517)	(3,184)
Payment for investment properties		(516)	(966)
Purchases of intangible assets		(4,171)	(4,975)
Net outflow of cash and cash equivalents in respect of business combinations	35(b)	(1,241)	–
Settlement of contingent considerations/considerations in respect of business combinations in prior years	35(b)	(77)	(13)
Investment in joint ventures		–	(160)
Investment in an associate		–	(69)
Loan to an associate		(49)	(35)
Loans to joint ventures		(127)	(110)
Loan from a joint venture		–	31
Repayment of loan from an associate		22	17
Purchases of available-for-sale financial assets		(117)	(378)
Proceeds from return of investments of available-for-sale financial assets		7	–
Proceeds from disposal of available-for-sale financial assets		6	221
Proceeds from disposal of an associate		87	–
Proceeds from disposal of other non-current assets		2	–
Proceeds from repayment of held-to-maturity investments		1	–
Dividends received from associates		8	5
Increase in short-term deposits with maturity more than three months		(1)	(452)
Purchase of derivative financial instrument		(62)	–
NET CASH USED IN INVESTING ACTIVITIES		(10,191)	(10,060)
FINANCING ACTIVITIES			
New borrowings raised, net		20,233	18,991
Finance costs paid		(1,135)	(1,025)
Repayments of borrowings		(19,656)	(17,466)
Dividends paid to shareholders of the Company		(797)	(1,477)
Distribution/Dividends paid to non-controlling shareholders of subsidiaries		(1,399)	(1,587)
Contribution from non-controlling shareholders of a subsidiary		6	–
Consideration paid to acquire non-controlling interests of a subsidiary		–	(1)
Loan granted by the non-controlling shareholder of a subsidiary		5	–
Settlement of balance with a non-controlling shareholder of a subsidiary		–	(53)
NET CASH USED IN FINANCING ACTIVITIES		(2,743)	(2,618)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(416)	(2,725)
Exchange differences		(24)	(21)
CASH AND CASH EQUIVALENTS			
Beginning of year		7,943	7,503
Less: cash and cash equivalents of disposal group classified as held for sale	25(h)	–	4,757
End of year	35(d)	7,503	4,751

The notes on pages 90 to 206 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

(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 telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales; the provision of interactive pay-TV services, Internet portal digital media entertainment platform in Hong Kong and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited, PCCW also operates a domestic free television service in Hong Kong.

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 issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622). 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 amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2016, but had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 1 (Amendment), Presentation of Financial Statements – Disclosure Initiative.
- HKAS 16 (Amendment), Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 16 (Amendment), Property, Plant and Equipment – Agriculture: Bearer Plants.
- HKAS 27 (2011) (Amendment), Separate Financial Statements – Equity Method in Separate Financial Statements.
- HKAS 28 (2011) (Amendment), Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception.
- HKAS 38 (Amendment), Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 41 (Amendment), Agriculture: Bearer Plants.
- HKFRS 10 (Amendment), Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception.
- HKFRS 11 (Amendment), Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations.
- HKFRS 12 (Amendment), Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception.
- HKFRS 14, Regulatory Deferral Accounts.
- Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA.

The Group has not early adopted any amendments and new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 43.

The consolidated financial statements for the year ended December 31, 2016 comprise the financial statements of the Group, and the Group's interests in associates and joint ventures.

The consolidated statements of financial position for the years ended December 31, 2016 and 2015 include additional information about the Company statement of financial position. The Company statement of financial position as at December 31, 2016 which was prepared in accordance with the requirements of Part 1 “Accounting Disclosures” of Schedule 4 to the Hong Kong Companies Ordinance (Cap. 622). The Company statement of financial position presented in note 4 was approved and signed by the directors.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

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

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying 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 Hong Kong Financial Reporting Standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with 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. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by Hong Kong Financial Reporting Standards. 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Subsidiaries and non-controlling interests (continued)

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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement 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.

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

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 costs 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 using the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

d. Associates (continued)

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

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

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.

e. Joint arrangements

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

The Group 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 using 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 Hong Kong Financial Reporting Standards applicable to the particular assets, liabilities, revenues and expenses.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**f. Property, plant and equipment**

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(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 consolidated income statement as an expense in the period in which they are incurred.

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

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 20 years
Transmission plant	5 to 35 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 Group. It also includes properties that are being constructed or developed for future use as investment properties.

Land held under operating leases is classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including directly attributable construction costs, borrowing costs and other related transaction costs. After initial recognition, investment properties are stated in the consolidated statement of financial position at fair value. Fair value is 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. Changes in fair value arising on the revaluation of investment properties are recognized in the consolidated income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

g. Investment properties (continued)

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 repair and maintenance costs are expensed in the consolidated income statement in the period in which they are incurred.

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 consolidated 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 consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated 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 consolidated statement of financial position as "Interests in leasehold land" and is amortized to the consolidated 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 at cost less accumulated impairment losses (see note 2(m)(ii)).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 at least 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.

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 consolidated income statement.

ii. Carrier licences

The carrier licences to establish and maintain the telecommunications network and to provide telecommunications services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded 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 telecommunications 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 consolidated income statement in the period in which it is incurred using the effective interest method.

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

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 consolidated 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 consolidated 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, licences and market knowledge are capitalized as “intangible assets” if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.

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

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

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

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 5 to 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 consolidated income statement on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Trademarks	20 years
Customer base	1 to 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 classifies its 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 consolidated 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 consolidated income statement as incurred. At the end of each reporting period, the fair value is remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated 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 has 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 consolidated 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 intends 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 remeasured, 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 consolidated income statement. Dividend income from these investments is recognized in the consolidated 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 consolidated 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 consolidated income statement.

Investments in debt and equity securities are recognized or derecognized on the date the Group commits 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 consolidated 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.

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)

- 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 consolidated income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated 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 consolidated income statement.

Impairment losses recognized in the consolidated income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the consolidated 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 consolidated income statement.

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 consolidated income statement.

ii. Impairment of other assets

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

m. Impairment of assets (continued)

ii. Impairment of other assets (continued)

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).

– Recognition of impairment losses

An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying 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 consolidated 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**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 remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated 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 consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 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 consolidated 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 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 consolidated income statement as follows:

i. Telecommunications and other services

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

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.

Under certain telecommunications service arrangement, customers can purchase telecommunications equipment together with a fixed period of telecommunications service. 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

w. Revenue recognition *(continued)*

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 have been transferred to the customers. Revenue is recorded after deduction of any trade discounts.

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated 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 consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

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

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

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

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in 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 Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:
 - in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
 - in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

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 consolidated 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 retirement schemes 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 retirement schemes 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 retirement schemes obligation and the fair value of plan assets. This cost is included in staff costs in the consolidated income statement.

In calculating the Group's defined benefit retirement schemes 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 consolidated 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 consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the 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.

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").

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**z. Employee benefits (continued)****iii. Share-based payments (continued)**

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 the PCCW Shares under both schemes is recognized as staff costs in the consolidated 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 consolidated 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 consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the 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 consolidated 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 consolidated 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 consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the 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.

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 consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

bb. Translation of foreign currencies (continued)

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 consolidated 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 consolidated 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.

cc. Related parties

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

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 to 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.

ff. Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) (or disposal group) are stated at the lower of carrying amount and fair value less costs to sell. Deferred income tax assets and financial assets (other than investments in subsidiaries), which are classified as held for sale, would continue to be measured in accordance with the policies set out in note 2.

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 retirement schemes 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. 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; and
- goodwill.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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

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 consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

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, provisions for impairment of interests in an associate and a joint venture of HK\$95 million and HK\$5 million respectively were recognized resulting in the carrying amount being written down to their respective recoverable amounts (note 8).

ii. 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.

Contract revenue 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 cost incurred will be recoverable.

The Group is required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

iii. Deferred income tax

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

iv. Current income tax

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

v. 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, 2016, the fair value of the investment properties was HK\$3,216 million (2015: HK\$2,084 million).

vi. 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 according to the results of the review.

4 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK\$ million	Note	2015	2016
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		17,072	17,072
Derivative financial instruments		–	12
		17,072	17,084
Current assets			
Amounts due from subsidiaries		18,862	21,281
Prepayments, deposits and other current assets		36	19
Cash and cash equivalents		815	587
		19,713	21,887
Current liabilities			
Accruals and other payables		(12)	(11)
		(12)	(11)
Non-current liabilities			
Long-term borrowings		(2,690)	(3,978)
Amounts due to subsidiaries		(2,987)	(3,024)
Derivative financial instruments		(143)	(84)
		(5,820)	(7,086)
Net assets		30,953	31,874
CAPITAL AND RESERVES			
Share capital		12,505	12,954
Reserves	32	18,448	18,920
Total equity		30,953	31,874

Approved and authorized for issue by the Board on January 16, 2017 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

5 RELATED PARTY TRANSACTIONS

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

In HK\$ million	Note	2015	2016
Telecommunications service fees, facility management service charges and interest income received or receivable from joint ventures	a	88	66
System integration service fees, consultancy service charges and interest income received or receivable from associates	a	17	16
Telecommunications service fees, system integration service fees and data center hosting service fees received or receivable from a substantial shareholder	a	146	155
Telecommunications service fees, outsourcing fees and rental charges paid or payable to joint ventures	a	277	265
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	186	117
Consideration paid or payable for the purchase of equipment from a joint venture	a	–	56
Key management compensation	b	95	88

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	2015	2016
Salaries and other short-term employee benefits	69	70
Share-based compensation	14	14
Post-employment benefits	4	4
Termination benefit	8	–
	95	88

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.

6 REVENUE

In HK\$ million	2015	2016
Telecommunications and other service revenue	32,789	33,522
Amounts received and receivable in respect of goods sold	6,466	4,802
Amounts received and receivable from rental of investment properties	59	60
	39,314	38,384

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, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.
- Media Business includes interactive pay-TV services, Internet portal digital media entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world. The Group also operates a domestic free television service in Hong Kong.
- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong, Macau and mainland China.
- PCPD covers the Group's development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.
- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

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"). 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				2015			
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
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
RESULTS							
EBITDA	12,100	393	688	(710)	(261)	(332)	11,878
OTHER INFORMATION							
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

7 SEGMENT INFORMATION (CONTINUED)

In HK\$ million							
	HKT	Media Business	Solutions Business	2016 Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	33,163	2,362	2,630	57	172	–	38,384
Inter-segment revenue	684	1,281	1,192	3	2	(3,162)	–
Total revenue	33,847	3,643	3,822	60	174	(3,162)	38,384
RESULTS							
EBITDA	12,684	(5)	761	(712)	(280)	(222)	12,226
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	2,878	192	95	48	14	–	3,227

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

In HK\$ million	2015	2016
Total segment EBITDA	11,878	12,226
(Loss)/gain on disposal of property, plant and equipment and intangible assets, net	(3)	3
Depreciation and amortization	(6,060)	(6,702)
Other gains, net	135	32
Interest income	87	52
Finance costs	(1,634)	(1,429)
Share of results of associates and joint ventures	37	45
Profit before income tax	4,440	4,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

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 that the Group derives revenue from customers. The comparative information is presented in line with the current year's basis.

In HK\$ million	Revenue from external customers	
	2015	2016
Hong Kong (place of domicile)	32,453	32,272
Mainland China, Macau and Taiwan, China	1,483	1,284
Others	5,378	4,828
	39,314	38,384

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$46,760 million (2015: HK\$44,027 million), and the total of these non-current assets located in other countries are HK\$9,673 million (2015: HK\$8,599 million).

8 OTHER GAINS, NET

In HK\$ million	2015	2016
Gain on disposal of an associate	75	–
Gain on remeasuring an available-for-sale investment upon a step acquisition (<i>note 41(b)(i)(iv)</i>)	29	–
Fair value (losses)/gains on investment properties	(4)	2
Net gains on cash flow hedging instruments transferred from equity	56	–
Net gains on fair value hedging instruments	48	4
Fair value movement of derivative financial instrument	(2)	(60)
Net realized gains on disposal of available-for-sale financial assets	32	106
Provision for impairment of an interest in an associate	(95)	–
Provision for impairment of an interest in a joint venture	(5)	–
Provision for impairment of available-for-sale financial assets	(2)	(19)
Others	3	(1)
	135	32

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK\$ million	2015	2016
Retirement costs for directors	3	3
Retirement costs for other staff under defined contribution and defined benefit retirement schemes	361	378
	364	381
Share-based compensation expenses	87	80
Salaries, bonuses and other benefits	4,965	5,262
	5,416	5,723
Less: staff costs included in cost of sales	(2,022)	(2,449)
Staff costs included in general and administrative expenses	3,394	3,274

b. Other items

In HK\$ million	2015	2016
Crediting:		
Gain on disposal of property, plant and equipment, net	–	3
Gross rental income	59	60
Less: Outgoings	(6)	(5)
Exchange gains, net	–	7
Less: Cash flow hedges: transferred from equity	–	(47)
Less: Fair value hedges: transferred to finance costs	–	(2)
Charging:		
Impairment loss for doubtful debts	312	337
Provision for inventory obsolescence	10	4
Depreciation of property, plant and equipment	2,141	1,774
Amortization of land lease premium – interests in leasehold land	22	20
Amortization of intangible assets	3,897	4,908
Cost of inventories sold	6,359	4,698
Cost of sales, excluding inventories sold	12,606	13,045
Loss on disposal of property, plant and equipment and intangible assets, net	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	33	32
– non-audit services	4	2
Remuneration to the other auditors		
– audit and audit-related services	5	6
– non-audit services	6	1
Operating lease rental	1,760	1,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

10 FINANCE COSTS

In HK\$ million	2015	2016
Interest expense	1,456	1,347
Notional accretion on carrier licence fee liabilities	119	87
Other borrowing costs	26	43
Cash flow hedges: transferred from equity	1	–
Fair value hedges: changes in fair value (<i>note a</i>)	(4)	1
Fair value hedges: exchange difference transferred from exchange (gains)/losses, net	(3)	2
Adjustment of borrowings attributable to foreign currency risk	3	(2)
Impact of re-designation of fair value hedges	16	16
Cash flow hedges: changes in fair value	38	(3)
	1,652	1,491
Interest capitalized in property, plant and equipment and investment properties (<i>note b</i>)	(18)	(62)
	1,634	1,429

a. Fair value hedges: changes in fair value represent fair value losses on derivative financial instruments on fair value hedges of HK\$9 million (2015: gains of HK\$28 million) and fair value adjustment of borrowings attributable to interest rate risk of HK\$8 million (2015: HK\$24 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 3.08% to 4.68% (2015: 2.56% to 3.95%).

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

2015

	Directors' fees		Salaries		Allowances		Benefits in kind ¹		Bonuses		Retirement scheme contributions		Share-based compensation ²		Total	
	PCCW		PCCW		PCCW		PCCW		PCCW		PCCW		PCCW		PCCW	
	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	-	-	-	-	-	-	0.04	-	-	-	-	-	-	-	0.04	-
Srinivas Bangalore Gangaiah	-	-	10.28	-	1.60	-	0.10	-	1.10 ³	-	1.07	-	-	-	14.15	-
Hui Hon Hing, Susanna	-	-	7.38	-	3.68	-	0.02	-	7.19 ³	-	0.89	-	13.07	-	32.23 ⁴	-
Lee Chi Hong, Robert	-	-	-	6.87	-	2.95	-	0.09	-	5.56 ³	-	1.03	-	-	-	16.50
Non-executive directors																
Sir David Ford	-	-	1.09	-	0.14	-	-	-	-	-	-	-	-	-	1.23	-
Lu Yimin	0.46 ⁵	-	-	-	-	-	-	-	-	-	-	-	-	-	0.46	-
Li Fushen	0.46 ⁶	-	-	-	-	-	-	-	-	-	-	-	-	-	0.46	-
Zhang Junan	0.23 ⁷	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Tse Sze Wing, Edmund	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Wei Zhe, David	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Independent non-executive directors																
Dr The Hon Sir David																
Li Kwok Po	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Aman Mehta	0.92 ⁸	-	-	-	0.53	-	-	-	-	-	-	-	-	-	1.45	-
Frances Waikun Wong	0.40 ⁹	-	-	-	-	-	-	-	-	-	-	-	-	-	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 ¹⁰	-	-	-	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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

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

	2016															
	Directors' fees		Salaries		Allowances		Benefits in kind ¹		Bonuses		Retirement scheme contributions		Share-based compensation ²		Total	
	PCCW		PCCW		PCCW		PCCW		PCCW		PCCW		PCCW		PCCW	
	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	-	-	-	-	-	-	0.04	-	-	-	-	-	-	-	0.04	-
Srinivas Bangalore Gangaiiah	-	-	10.56	-	1.61	-	0.10	-	2.50 ³	-	1.09	-	0.56	-	16.42	-
Hui Hon Hing, Susanna	-	-	7.58	-	3.78	-	0.03	-	9.72 ³	-	0.91	-	11.76	-	33.78 ⁴	-
Lee Chi Hong, Robert	-	-	-	6.95	-	2.98	-	0.09	-	4.50 ³	-	1.04	-	-	-	15.56
Non-executive directors																
Sir David Ford	-	-	0.97	-	0.13	-	0.16	-	-	-	-	-	-	-	1.26	-
Lu Yimin	0.46 ⁵	-	-	-	-	-	-	-	-	-	-	-	-	-	0.46	-
Li Fushen	0.46 ⁶	-	-	-	-	-	-	-	-	-	-	-	-	-	0.46	-
Zhang Junan	0.23 ⁷	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Tse Sze Wing, Edmund	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Wei Zhe, David	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po	0.23	-	-	-	-	-	-	-	-	-	-	-	-	-	0.23	-
Aman Mehta	0.92 ⁸	-	-	-	0.53	-	-	-	-	-	-	-	-	-	1.45	-
Frances Waikwun Wong	0.58 ⁹	-	-	-	-	-	-	-	-	-	-	-	-	-	0.58	-
Bryce Wayne Lee	0.23	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.63	-
Lars Eric Nils Rodert	0.23	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.76	-
David Christopher Chance	0.35 ¹⁰	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.75	-
	4.15	-	19.11	6.95	7.38	2.98	0.33	0.09	12.22	4.50	2.00	1.04	12.32	-	57.51	15.56

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 2016 for respective directors under the share award schemes.
- Bonus amounts shown above represent the portion of 2015 bonuses that were paid in 2016. It was determined by reference to the Group and the individual performance during the year ended December 31, 2015.
- 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 2016 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 2016 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 2016 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\$230,000 and HK\$115,000 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.
- 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, 2016 under the Company's share award scheme in respect of his services as a past director of the Company and its subsidiaries is HK\$1.87 million (2015: HK\$10.14 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, 2016 (2015: nil).

c. Directors' retirement benefits

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2016 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2015: 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, 2016 (2015: nil).

d. Directors' termination benefits

No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services were paid to or receivable by the directors during the year ended December 31, 2016 (2015: 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, 2016 (2015: 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, 2016 (2015: 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, 2016 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

h. Individuals with highest emoluments

- i. Of the five individuals with the highest emoluments, three (2015: three) are directors of the Company whose emoluments are disclosed in note 11(a). The emoluments in respect of the two (2015: two) non-director individuals were as follows:

In HK\$ million	2015	2016
Salaries, share-based compensation, allowances and benefits in kind	41.13	36.14
Bonuses	25.58	24.71
Retirement scheme contributions	1.90	2.00
	68.61	62.85

- ii. The emoluments of the two (2015: two) non-director individuals were within the following emolument ranges:

	Number of individuals	
	2015	2016
HK\$16,000,001 – HK\$16,500,000	1	–
HK\$19,500,001 – HK\$20,000,000	–	1
HK\$43,000,001 – HK\$43,500,000	–	1
HK\$52,000,001 – HK\$52,500,000	1	–
	2	2

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK\$ million	2015	2016
Hong Kong profits tax		
– provision for current year	483	676
– under/(over) provision in respect of prior years	8	(191)
Overseas tax		
– provision for current year	75	98
– (over)/under provision in respect of prior years	(199)	6
Movement of deferred income tax (note 33(a))	80	(194)
	447	395

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

12 INCOME TAX (CONTINUED)

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

In HK\$ million	2015	2016
Profit before income tax	4,440	4,227
Notional tax on profit before income tax, calculated at applicable tax rate	733	697
Effect of different tax rates of subsidiaries operating overseas	6	(4)
Income not subject to tax	(50)	(35)
Expenses not deductible for tax purposes	201	173
Tax losses not recognized	129	278
Over provision in prior years, net	(191)	(185)
Utilization of previously unrecognized tax losses	(123)	(30)
Recognition of tax losses	(252)	(492)
Net income of associates and joint ventures not subject to tax	(6)	(7)
Income tax expense	447	395

The decrease in the effective tax rate is mainly due to the increase in recognition of tax losses in the year ended December 31, 2016.

13 DIVIDENDS

In HK\$ million	2015	2016
Interim dividend declared and paid in respect of current year of 8.16 HK cents (2015: 7.96 HK cents) per ordinary share	601	629
Less: dividend for PCCW Shares held by share award schemes	(2)	(1)
	599	628
Final dividend declared in respect of previous financial year, approved and paid during the year of 17.04 HK cents (2015: 13.21 HK cents) per ordinary share	985	1,299
Less: dividend for PCCW Shares held by share award schemes	(2)	(1)
	983	1,298
	1,582	1,926
Final dividend proposed after the end of the reporting period of 20.17 HK cents (2015: 17.04 HK cents) per ordinary share	1,299	1,557

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

b. For details of shares issued in lieu of cash dividends, please refer to note 29(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

14 EARNINGS PER SHARE

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

	2015	2016
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per share	2,295	2,051
Number of shares		
Weighted average number of ordinary shares	7,521,736,989	7,670,021,895
Effect of PCCW Shares held under the Company's share award schemes	(17,131,028)	(13,204,717)
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,504,605,961	7,656,817,178
Effect of PCCW Shares awarded under the Company's share award schemes	9,571,065	8,477,779
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,514,177,026	7,665,294,957

15 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million

	2015					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
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 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
Accumulated depreciation and impairment						
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
Net book value						
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

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million

	2016					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,675	14,399	19,792	13,549	1,737	51,152
Additions	–	501	410	591	1,725	3,227
Transfers	(77)	409	556	413	(1,378)	(77)
Disposals	–	(243)	(326)	(101)	(2)	(672)
Exchange differences	8	(129)	(33)	(25)	–	(179)
Transferred to disposal group classified as held for sale (note 25(h))	–	(573)	–	(85)	(14)	(672)
End of year	1,606	14,364	20,399	14,342	2,068	52,779
Accumulated depreciation and impairment						
Beginning of year	531	10,441	11,045	10,422	–	32,439
Charge for the year	51	471	568	684	–	1,774
Transfers	(7)	–	–	–	–	(7)
Disposals	–	(243)	(326)	(98)	–	(667)
Exchange differences	1	(68)	(16)	(35)	–	(118)
Transferred to disposal group classified as held for sale (note 25(h))	–	(274)	–	(69)	–	(343)
End of year	576	10,327	11,271	10,904	–	33,078
Net book value						
End of year	1,030	4,037	9,128	3,438	2,068	19,701
Beginning of year	1,144	3,958	8,747	3,127	1,737	18,713

As at December 31, 2016, certain property, plant and equipment with an aggregate carrying value of approximately HK\$2 million (2015: HK\$2 million) were pledged as security for certain bank loan facilities 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.

During the year ended December 31, 2016, 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 January 1, 2016. As a result of this change in accounting estimate, the Group's profit attributable to the equity holders of the Company for the year ended December 31, 2016 increased by HK\$282 million and the equity attributable to the equity holders of the Company as at December 31, 2016 increased by HK\$282 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

16 INVESTMENT PROPERTIES

In HK\$ million	2015	2016
Beginning of year	1,878	2,084
Additions	340	1,126
Exchange differences	(130)	4
Fair value (losses)/gains	(4)	2
End of year	2,084	3,216

The unrealized gains of the investment properties for the year ended December 31, 2016 of HK\$2 million (2015: losses of HK\$4 million) was recognized in the consolidated income statement as “Fair value (losses)/gains on investment properties”.

As at December 31, 2016, a sum of approximately HK\$62 million (2015: HK\$293 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, 2016, value added tax receivables of approximately HK\$236 million and HK\$10 million (2015: HK\$168 million and HK\$2 million) in relation to the land acquisition and construction of the investment property are included in “Other non-current assets” and current assets “Prepayment, deposits and other current assets” in the consolidated statement of financial position respectively.

a. Estimation of fair values and valuation techniques

The tables below analyze the investment properties carried at fair value as at December 31, 2015 and 2016. 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	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

In HK\$ million	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties				
Indonesia	–	–	3,188	3,188
Hong Kong	–	28	–	28
	–	28	3,188	3,216

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 years ended December 31, 2016 and 2015, there were no transfers between different levels.

Information about level 3 fair value measurements

Investment properties	Valuation technique	2015 Unobservable inputs	Rate
Indonesia	Residual value approach	Price per net saleable area Construction cost	US\$5,730/sq.m. to US\$6,280/sq.m. US\$2,000/sq.m. to US\$2,450/sq.m.

Information about level 3 fair value measurements

Investment properties	Valuation technique	2016 Unobservable inputs	Rate
Indonesia	Residual value approach	Price per net saleable area Construction cost	US\$5,750/sq.m. to US\$6,000/sq.m. US\$2,285/sq.m. to US\$2,460/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 is held for investment and construction is in progress. PCPD management has estimated the fair value of the property (using residual value approach) with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. Significant changes in the estimated sales prices or the construction costs to complete 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 1 to 15 years. None of the leases include material contingent rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

16 INVESTMENT PROPERTIES (CONTINUED)

c. As at December 31, 2016, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases were receivables as follows:

In HK\$ million	2015	2016
Within 1 year	37	49
After 1 year but within 5 years	31	43
After 5 years	2	4
	70	96

d. Investment properties with a carrying value of approximately HK\$3,188 million (2015: HK\$2,058 million) were pledged as security for certain bank loan facilities of the Group as at December 31, 2016. Please refer to note 40 for details of the Group's bank loan facilities.

17 INTERESTS IN LEASEHOLD LAND

In HK\$ million	2015	2016
Cost		
Beginning and end of year	820	820
Accumulated amortization		
Beginning of year	356	378
Charge for the year	22	20
End of year	378	398
Net book value		
End of year	442	422
Beginning of year	464	442

As at December 31, 2016, there was no leasehold land included in properties under development (2015: nil).

18 PROPERTIES HELD FOR/UNDER DEVELOPMENT

In HK\$ million	Properties held for development (note a)	2015 Properties under development (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

In HK\$ million	Properties held for development (note a)	2016 Properties under development (note b)	Total
Beginning of year	525	326	851
Additions	13	29	42
Exchange differences	6	25	31
End of year	544	380	924

a. Properties held for development as at December 31, 2016 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 as at December 31, 2016. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. 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 as at December 31, 2016 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary of PCPD. PCPD management has performed assessments of the recoverable amount of the development project in Japan included in properties under development as at December 31, 2016. The valuation is based on the discounted cash flow forecast of the development project which involves the use of significant 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

19 GOODWILL

In HK\$ million	2015	2016
Cost		
Beginning of year	17,241	18,349
Additions upon business combinations	1,131	–
Exchange differences	(23)	(38)
Transferred to disposal group classified as held for sale (<i>note 25(h)</i>)	–	(62)
End of year	18,349	18,249
Accumulated impairment		
Beginning of year	166	166
Transferred to disposal group classified as held for sale (<i>note 25(h)</i>)	–	(12)
End of year	166	154
Carrying amount		
End of year	18,183	18,095
Beginning of year	17,075	18,183

Impairment tests for CGUs containing goodwill

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

In HK\$ million	2015	2016
HKT		
Mobile	15,591	15,591
Global Business	723	717
Teleservices	197	197
Others	139	117
	16,650	16,622
Media Business	1,111	1,111
Solutions Business	271	271
PCPD	91	91
Others	60	–
Total	18,183	18,095

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(b)(i)) has been finalized as of the date of these consolidated financial statements. The resulting goodwill has been 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 5-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

19 GOODWILL (CONTINUED)

Impairment tests for CGUs containing goodwill (continued)

The key assumptions used for value-in-use calculations in 2015 and 2016 are as follows:

	Operating margin	2015 Terminal growth rate	Discount rate	Operating margin	2016 Terminal growth rate	Discount rate
Mobile	66%	2%	11%	62%	2%	9%
Global Business	23%	3%	10%	22%	3%	10%
Teleservices	31%	2%	10%	33%	2%	9%
Media Business	54%	2%	14%	54%	2%	14%
Solutions Business	26%	2%	12%	26%	2%	11%

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

There was no impairment required from the review on goodwill as at October 31, 2016.

Management determined budgeted operating 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 terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

20 INTANGIBLE ASSETS

In HK\$ million

	Trademarks	Capitalized programme costs	Wireless broadband licences	Carrier licences	2015 Customer acquisition costs	Customer base	Software	Others	Total
Cost									
Beginning of year	2,929	483	412	3,396	3,987	2,762	982	18	14,969
Additions	–	306	–	117	3,014	–	292	20	3,749
Additions upon business combinations	–	–	–	–	–	346	152	–	498
Write-off	–	(73)	–	–	(1,670)	–	–	–	(1,743)
Exchange differences	(3)	–	(19)	–	(4)	(2)	–	–	(28)
End of year	2,926	716	393	3,513	5,327	3,106	1,426	38	17,445
Accumulated amortization and impairment									
Beginning of year	1,145	320	233	786	1,828	315	139	8	4,774
Charge for the year	146	166	25	465	2,470	479	146	–	3,897
Write-off	–	(65)	–	–	(1,670)	–	–	–	(1,735)
Exchange differences	–	–	(12)	–	(3)	(2)	–	–	(17)
End of year	1,291	421	246	1,251	2,625	792	285	8	6,919
Net book value									
End of year	1,635	295	147	2,262	2,702	2,314	1,141	30	10,526
Beginning of year	1,784	163	179	2,610	2,159	2,447	843	10	10,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

20 INTANGIBLE ASSETS (CONTINUED)

In HK\$ million

	Trademarks	Capitalized programme costs	Wireless broadband licences	Carrier licences	2016 Customer acquisition costs	Customer base	Software	Others	Total
Cost									
Beginning of year	2,926	716	393	3,513	5,327	3,106	1,426	38	17,445
Additions	–	592	–	2,061	3,179	–	669	5	6,506
Write-off	–	(38)	–	(499)	(2,742)	–	–	–	(3,279)
Exchange differences	(10)	–	(63)	–	(2)	(11)	–	–	(86)
Transferred to disposal group classified as held for sale (note 25(h))	–	–	(330)	–	(12)	–	–	–	(342)
End of year	2,916	1,270	–	5,075	5,750	3,095	2,095	43	20,244
Accumulated amortization and impairment									
Beginning of year	1,291	421	246	1,251	2,625	792	285	8	6,919
Charge for the year	146	396	22	452	3,087	488	311	6	4,908
Write-off	–	(38)	–	(499)	(2,742)	–	–	–	(3,279)
Exchange differences	(2)	–	(42)	–	(2)	(4)	–	–	(50)
Transferred to disposal group classified as held for sale (note 25(h))	–	–	(226)	–	(10)	–	–	–	(236)
End of year	1,435	779	–	1,204	2,958	1,276	596	14	8,262
Net book value									
End of year	1,481	491	–	3,871	2,792	1,819	1,499	29	11,982
Beginning of year	1,635	295	147	2,262	2,702	2,314	1,141	30	10,526

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

21 SUBSIDIARIES

a. As at December 31, 2016, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by		
				the Company	non- controlling interests	
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK\$3,785,871.167 ordinary shares and HK\$3,785,871.167 preference shares	–	63.1%	36.9%
HKT Group Holdings Limited ³ ("HKTGH")	Cayman Islands	Investment holding	US\$636,000,008	–	63.1%	36.9%
Hong Kong Telecommunications (HKT) Limited ³ ("HKTL")	Hong Kong	Provision of telecommunications services	HK\$9,945,156,001	–	63.1%	36.9%
HKT Services Limited ³	Hong Kong	Provision of management services to group 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 Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK\$700,002	–	100%	–
CSL Mobile Limited ³	Hong Kong	Provision of mobile services to its customers, which is procured from HKTL, and the sale of mobile phones and accessories	HK\$7,900,280,100 ordinary shares and HK\$1,254,000,000 non-voting deferred shares	–	63.1%	36.9%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK\$5,507,310,269 ordinary shares, HK\$1 "A" Class share and HK\$4 "B" Class shares	–	100%	–
HK Television Entertainment Company Limited ⁴ ("HKTVE")	Hong Kong	Broadcasting and related services	HK\$50 "A" Class shares (non-voting), HK\$100 "B" Class shares (voting) and HK\$50 "C" Class shares (non-voting)	–	100%	–
Vuclip, Inc.	California, U.S.	Management and engineering support services	US\$1	–	94.8%	5.2%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK\$2	–	100%	–
HKT Teleservices International Limited (formerly known as PCCW Teleservices (Hong Kong) Limited) ³	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK\$350,000,002	–	63.1%	36.9%
廣州電盈綜合客戶服務技術發展 有限公司 ¹⁻³ (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The People's Republic of China ("PRC")	Customer service and consultancy	HK\$93,240,000	–	63.1%	36.9%
PCCW (Macau), Limitada ²⁻³	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	47.3%	52.7%
PCCW Global B.V. ³	Netherlands/France	Sales, distribution and marketing of telecommunication services and products	EUR18,000	–	63.1%	36.9%
PCCW Global (HK) Limited ³	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK\$10	–	63.1%	36.9%
PCCW Global Limited ³	Hong Kong/ Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK\$232,208,090.65	–	63.1%	36.9%
PCCW Global, Inc. ³	Delaware, U.S.	Supply of broadband internet access solutions and web services	US\$18.01	–	63.1%	36.9%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

21 SUBSIDIARIES (CONTINUED)

a. As at December 31, 2016, particulars of the principal subsidiaries of the Company are as follows: (continued)

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by		
				the Company	non-	controlling
				Directly	Indirectly	interests
HKT Global (Singapore) Pte. Ltd. ³	Singapore/Malaysia	Provision of telecommunications solutions related services	S\$60,956,485.64	–	63.1%	36.9%
Gateway Global Communications Limited ³	United Kingdom	Provision of network-based telecommunications services to external customers and related companies	GBP1	–	63.1%	36.9%
PCCW Global (Japan) K.K. ³	Japan	Provision of telecommunication service	JPY10,000,000	–	63.1%	36.9%
Gateway Communications S.A.S. ³	France	Provision of wholesale voice and data services	EUR10,000	–	63.1%	36.9%
Gateway Communications (Proprietary) Limited ³	South Africa	Sales and distribution of integrated global communications solutions to customers in South Africa	ZAR1,000	–	63.1%	36.9%
Sun Mobile Limited ^{2,3}	Hong Kong	Provision of mobile telecommunications services to customers in Hong Kong	HK\$41,600,000	–	37.8%	62.2%
Relish Networks plc ³	United Kingdom	Provision of predominantly fixed network services to campus-based customers	GBP403,010.74 ordinary shares and GBP7,539,543 deferred shares (non-voting)	–	63.1%	36.9%
電訊盈科(北京)有限公司 ¹ (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 ¹ (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK\$12,600,000	–	100%	–
Pacific Century CyberWorks Solutions (Macau) Limited	Macau	Provision of integrated information, communications and technology services, infrastructure construction outsourcing, application outsourcing, specific business process outsourcing services for various industries and cloud computing	MOP25,000	–	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\$201,234,656.50	–	70.8%	29.2%
Cyber-Port Limited ⁵	Hong Kong	Property development	HK\$2	–	70.8%	29.2%
Talent Master Investments Limited ⁵	British Virgin Islands/ Hong Kong	Property investment	US\$1	–	70.8%	29.2%
Nihon Harmony Resorts KK ⁵	Japan	Ski operation	JPY405,000,000	–	70.8%	29.2%
Harmony TMK ⁵	Japan	Property development	JPY100,000,000 specified shares and JPY4,950,000,000 preferred shares	–	70.8%	29.2%
PT Prima Bangun Investama ⁵	Indonesia	Property development and management	US\$26,000,000	–	70.8%	29.2%
Phang-nga Leisure Limited ^{2,5}	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%
Phang-nga Paradise Limited ^{2,5}	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%

* Unofficial company name

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

21 SUBSIDIARIES (CONTINUED)

a. As at December 31, 2016, 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 Hong Kong Financial Reporting Standards.
- 4 Where applicable for the purposes of the Broadcasting Ordinance (Cap. 562) and the Hong Kong Companies Ordinance (Cap. 622), PCCW treats HKTVE as a non-subsidiary as defined therein.
- 5 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 Hong Kong Financial Reporting Standards. 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 Hong Kong Financial Reporting Standards.

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, 2015 and 2016 are as follows:

In HK\$ million	HKT Group 2015	2016	PCPD Group 2015	2016
Non-current assets	77,570	80,921	3,375	4,665
Current assets	12,347	12,445	2,890	1,663
Total assets	89,917	93,366	6,265	6,328
Current liabilities	(14,778)	(11,302)	(777)	(1,102)
Non-current liabilities	(37,404)	(42,905)	(233)	(280)
Net assets	37,735	39,159	5,255	4,946
Non-controlling interests	(119)	(63)	–	–
Net assets after non-controlling interests	37,616	39,096	5,255	4,946

Summarized financial information for the years ended December 31, 2015 and 2016 is as follows:

In HK\$ million	HKT Group 2015	2016	PCPD Group 2015	2016
Revenue	34,729	33,847	165	174
Profit/(loss) before income tax	4,586	5,698	(268)	(346)
Income tax	(600)	(771)	187	(18)
Profit/(loss) for the year	3,986	4,927	(81)	(364)
Other comprehensive (loss)/income	(503)	714	(226)	56
Total comprehensive income/(loss)	3,483	5,641	(307)	(308)
Non-controlling interests	(37)	(38)	–	–
Total comprehensive income/(loss) after non-controlling interests	3,446	5,603	(307)	(308)
Dividends paid to non-controlling interests	1,399	1,587	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

21 SUBSIDIARIES (CONTINUED)

c. Summarized financial information on subsidiaries with material non-controlling interests (continued)

Summarized cash flows for the years ended December 31, 2015 and 2016 are as follows:

In HK\$ million	HKT Group 2015	2016	PCPD Group 2015	2016
Cash flows from operating activities				
Cash generated from/(used in) operations	11,723	12,800	432	(408)
Interest received	11	13	12	11
Income tax paid, net of tax refund	(365)	(551)	(9)	(14)
Net cash generated from/(used in) operating activities	11,369	12,262	435	(411)
Net cash used in investing activities	(7,215)	(7,934)	(1,077)	(992)
Net cash (used in)/generated from financing activities	(4,003)	(5,207)	(6)	449
Net increase/(decrease) in cash and cash equivalents	151	(879)	(648)	(954)
Exchange differences	4	(7)	(3)	7
Cash and cash equivalents at January 1,	3,613	3,768	2,466	1,815
Cash and cash equivalents at December 31,	3,768	2,882	1,815	868

The information above represents amounts 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, 2016 was HK\$5,567 million (2015: HK\$4,022 million), of which HK\$2,091 million (2015: HK\$1,518 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, 2016 was HK\$308 million (2015: HK\$307 million), of which an loss of HK\$23 million (2015: HK\$23 million) was allocated to the non-controlling interests.

The net assets after group consolidation adjustments of HKT Group as at December 31, 2016 were HK\$6,206 million (2015: HK\$4,771 million) and the net assets after group consolidation adjustments of PCPD Group as at December 31, 2016 were HK\$4,881 million (2015: HK\$5,189 million).

The total non-controlling interests as at December 31, 2016 were HK\$2,750 million (2015: HK\$2,318 million), of which HK\$2,360 million (2015: HK\$1,884 million) and HK\$360 million (2015: HK\$384 million) were attributed to HKT Group and PCPD Group, respectively.

22 INTERESTS IN ASSOCIATES

In HK\$ million	2015	2016
Share of net assets of associates	611	718
Loans due from associates, net	291	291
Amount due from an associate	34	34
	936	1,043
Provision for impairment	(318)	(318)
	618	725
Investments at cost, unlisted shares	755	811

a. As at December 31, 2016, 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 (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 (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
Latto Ltd. ("Latto")	Cyprus	Development and provision of cloud based multi-screen video platforms for streaming and on demand video content – OTT	EUR2,505.15 ordinary shares and EUR10,417.32 aggregate preferred shares	–	21.1%	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.

Latto is a strategic partnership of the Group's growth in integrated telecommunications business, providing cloud based multi-screen video platforms for streaming and on demand video content – OTT in South Africa. The percentage interest held by the Company is calculated on an as-converted basis assuming all the preferred shares are converted into ordinary shares.

The above associates are private companies and there are no quoted market prices available for their shares or equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INTERESTS IN ASSOCIATES (CONTINUED)

b. Commitments and contingent liabilities in respect of associates

As at December 31, 2016, the Group's share of its associates' commitments, based on the Group's effective interest, are as follows:

In HK\$ million	2015	2016
Operating lease commitments		
Within 1 year	7	6
After 1 year but within 5 years	4	6
	11	12

The Group's contingent liabilities relating to its associates were disclosed in note 39. As at December 31, 2016, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK\$2 million (2015: HK\$14 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		Latto	
	As at December 31, 2015	2016	As at December 31, 2015	2016	As at December 31, 2015	2016
Non-current assets	645	605	3	3	–	52
Current assets	3,064	3,889	57	72	–	16
Current liabilities	(2,494)	(3,221)	(404)	(426)	–	(16)
Non-current liabilities	(54)	(14)	–	–	–	–

In HK\$ million	PCITC		DJTCL		Latto	
	For the year ended December 31, 2015	2016	For the year ended December 31, 2015	2016	For the year ended December 31, 2015	2016
Revenue	3,212	3,255	226	227	–	4
Profit/(Loss) after income tax and total comprehensive income/(loss)	166	176	(77)	(29)	–	(10)
Dividends received from associates	5	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, 2016, the aggregate total net amount of the Group's share of the profit after income tax, other comprehensive income and total comprehensive income in individually immaterial associates that are accounted for using the equity method were nil (2015: HK\$4 million), nil (2015: nil) and nil (2015: HK\$4 million), respectively.

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		Latto	
	2015	2016	2015	2016	2015	2016
Net assets/(liabilities)						
Beginning of year	1,058	1,161	(267)	(344)	–	–
At date of acquisition	–	–	–	–	–	64
Profit/(Loss) and total comprehensive income/(loss) for the year/since acquisition	166	176	(77)	(29)	–	(10)
Exchange differences	(52)	(67)	–	22	–	(2)
Dividends	(11)	(11)	–	–	–	–
End of year	1,161	1,259	(344)	(351)	–	52
Interests in associates	45%	45%	35%*	35%*	–	33.5%*
Interests in associates	522	567	(120)	(123)	–	17
Goodwill	–	–	24	24	–	46
Loans due from an associate	–	–	310	313	–	–
Provision for impairment	–	–	(147)	(147)	–	–
Carrying value	522	567	67	67	–	63

* The Group held approximately 22.1% (2015: 22.1%) and 21.1% (on an as-converted basis) (2015: nil) effective interest through its non-wholly owned subsidiaries in the equity of DJTCL and Latto respectively as at December 31, 2016.

As at December 31, 2016, loans due from an associate comprised certain unsecured loans totaling HK\$118 million (2015: HK\$96 million) which bear interest at 4% per annum (2015: 4% per annum) and repayable in 1 year (2015: same), and certain secured loans totaling HK\$195 million (2015: HK\$214 million) which bear interest at 4% per annum (2015: 4% per annum) and repayable in 1 year (2015: same).

As at December 31, 2016, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK\$28 million (2015: HK\$29 million).

During the year ended December 31, 2016, no provision for impairment (2015: HK\$95 million) was included in “Other gains, net” in the consolidated income statement.

During the year ended December 31, 2016, the Group did not have any unrecognized share of losses of associates (2015: nil). As at December 31, 2016, there was no accumulated share of losses of the associates unrecognized by the Group (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

23 INTERESTS IN JOINT VENTURES

In HK\$ million	2015	2016
Share of net assets of joint ventures	2,819	3,003
Loans due from joint ventures, net	509	468
Amounts due from joint ventures	25	25
	3,353	3,496
Provision for impairment	(2,868)	(2,868)
	485	628
Investments at cost, unlisted shares	3,664	3,871

As at December 31, 2016, 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\$446 million (2015: HK\$484 million) bears interest at HIBOR plus 3% per annum (2015: same) with no fixed terms of repayment.

a. As at December 31, 2016, 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 above principal joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2016, the Group's share of its joint ventures' commitments, based on the Group's effective interest, are as follows:

In HK\$ million	2015	2016
Commitment to provide funding	61	55
In HK\$ million	2015	2016
Operating lease commitments		
Within 1 year	2	3
After 1 year but within 5 years	3	4
	5	7

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2016, the Group's effective share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK\$24 million (2015: HK\$24 million) and there was no share of corporate guarantees (2015: HK\$52 million).

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 As at December 31,	
	2015	2016
Non-current assets	1,029	986
Current assets		
Cash and cash equivalents	9	30
Other current assets (excluding cash and cash equivalents)	21	25
Total current assets	30	55
Current liabilities		
Financial liabilities (excluding trade payables, other payables and accruals)	(244)	(275)
Other current liabilities (including trade payables, other payables and accruals)	(28)	(61)
Total current liabilities	(272)	(336)
Non-current liabilities		
Financial liabilities	(805)	(730)
Other non-current liabilities	(22)	(24)
Total non-current liabilities	(827)	(754)
Net liabilities	(40)	(49)
Equity attributable to equity holders	(40)	(49)
In HK\$ million	GBL For the year ended December 31,	
	2015	2016
Revenue	241	219
Depreciation and amortization	(92)	(84)
Interest expense	(35)	(32)
Profit before income tax	2	1
Income tax	(11)	(10)
Loss after income tax and total comprehensive loss	(9)	(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, 2016, the aggregate total net amount of the Group's share 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\$17 million (2015: HK\$10 million), nil (2015: nil) and HK\$17 million (2015: HK\$10 million), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

23 INTERESTS IN JOINT VENTURES (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 joint venture.

In HK\$ million	GBL 2015	2016
Net liabilities		
Beginning of year	(31)	(40)
Loss and total comprehensive loss for the year	(9)	(9)
End of year	(40)	(49)
Interest in joint venture	50%*	50%*
Interest in joint venture	(20)	(24)
Loan due from a joint venture	484	446
Carrying value	464	422

* The Group held approximately 31.5% (2015: 31.5%) effective interest through its non-wholly owned subsidiary in equity of GBL as at December 31, 2016.

As at December 31, 2016, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK\$206 million (2015: HK\$21 million).

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	2015	2016
Beginning of year	754	806
Additions	172	378
Disposals	(30)	(115)
Reclassification of equity interests upon step acquisition	(78)	–
Impairment loss recognized	(2)	(5)
Net losses transferred to equity	(10)	(7)
End of year	806	1,057
In HK\$ million	2015	2016
Listed equity securities – overseas	24	12
Unlisted equity securities	782	1,045
	806	1,057

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

During the year ended December 31, 2016, provision for impairment of HK\$19 million (2015: HK\$2 million) was included in “Other gains, net” in the consolidated income statement, included in which HK\$14 million (2015: nil) was transferred 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 securities.

During the year ended December 31, 2016, available-for-sale financial assets with a carrying value of approximately HK\$115 million (2015: HK\$30 million) were sold and a total realized gain of HK\$106 million (2015: HK\$32 million) was recognized in “Other gains, net” in the consolidated income statement, there was no transfer (2015: 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 properties of PCPD Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and 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. The sales proceeds held in stakeholders' accounts of HK\$510 million as at December 31, 2016 (2015: HK\$513 million) are exposed to minimum credit risk.

b. Restricted cash

The balance of the Group mainly represented a restricted cash balance of approximately HK\$95 million as at December 31, 2016 (2015: HK\$96 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\$819 million as at December 31, 2016 (2015: HK\$141 million).

d. Inventories

In HK\$ million	2015	2016
Work-in-progress	407	491
Finished goods	316	381
Consumable inventories	51	71
	774	943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

e. Trade receivables, net

In HK\$ million	2015	2016
Trade receivables (note i)	4,216	4,050
Less: Impairment loss for doubtful debts (note ii)	(247)	(272)
Trade receivables, net	3,969	3,778

i. Aging of trade receivables based on the date of invoice

In HK\$ million	2015	2016
1–30 days	2,297	2,276
31–60 days	651	510
61–90 days	256	324
91–120 days	207	223
Over 120 days	805	717
	4,216	4,050

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	2015	2016
Beginning of year	234	247
Impairment loss recognized	312	337
Uncollectible amounts written off	(299)	(311)
Transferred to disposal group classified as held for sale	–	(1)
End of year	247	272

As at December 31, 2016, trade receivables of HK\$272 million (2015: HK\$247 million) were impaired. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

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	2015	2016
Neither past due nor impaired	1,880	1,972
1–30 days past due	921	701
31–60 days past due	307	207
61–90 days past due	157	237
Over 90 days past due	704	661
Past due but not considered impaired	2,089	1,806
	3,969	3,778

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\$37 million (2015: HK\$49 million).

f. Short-term borrowings

In HK\$ million	2015	2016
US\$500 million 4.25% guaranteed notes due 2016 (note i)	3,879	–
Bank borrowings (note ii)	–	457
	3,879	457
Secured	–	457
Unsecured	3,879	–

i. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

f. Short-term borrowings (continued)

ii. Bank borrowings

The bank borrowings as at December 31, 2016 represented certain loans to be matured in 2017.

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	2015	2016
1–30 days	1,571	1,664
31–60 days	102	155
61–90 days	81	86
91–120 days	101	36
Over 120 days	639	790
	2,494	2,731

Included in trade payables were amounts due to related parties of HK\$58 million (2015: HK\$61 million).

h. Assets and liabilities of disposal group classified as held for sale

The assets and liabilities related to Transvision Investments Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries (collectively the "Transvision Group") have been presented as held for sale in the Group's consolidated statement of financial position as at December 31, 2016. The Transvision Group mainly comprises UK Broadband Limited, an indirect wholly-owned subsidiary engaging in the provision of wireless broadband services in the United Kingdom. The Group is actively exploring opportunities to dispose of equity interests in the Transvision Group where the completion of the sale within twelve months of classification as assets held for sale is considered highly probable.

(i) Assets of disposal group classified as held for sale

In HK\$ million	As at December 31, 2015	2016
Properties, plant and equipment (note 15)	–	329
Goodwill (note 19)	–	50
Intangible assets (note 20)	–	106
Deferred income tax assets (note 33)	–	264
Prepayments, deposits and other current assets	–	35
Inventories	–	13
Trade receivables, net	–	4
Cash and cash equivalents (note 35(d))	–	6
	–	807

25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

h. Assets and liabilities of disposal group classified as held for sale (continued)

(ii) Liabilities of disposal group classified as held for sale

In HK\$ million	As at December 31,	
	2015	2016
Trade payables	–	(2)
Accruals and other payables	–	(29)
Advances from customers	–	(1)
Other long-term liabilities	–	(4)
	–	(36)

(iii) Cumulative income or expense recognized in other comprehensive income relating to Transvision Group classified as held for sale

In HK\$ million	As at December 31,	
	2015	2016
Cumulative other comprehensive loss		
Foreign exchange translation adjustments, net of tax	–	(200)

26 LONG-TERM BORROWINGS

In HK\$ million	2015	2016
Repayable within a period		
– over one year, but not exceeding two years	3,544	1,194
– over two years, but not exceeding five years	20,077	23,713
– over five years	14,469	20,224
	38,090	45,131
Representing:		
US\$300 million 5.75% guaranteed notes due 2022 (note a)	2,194	2,190
US\$500 million 3.75% guaranteed notes due 2023 (note b)	3,711	3,736
US\$300 million zero coupon guaranteed notes due 2030 (note c)	2,308	2,311
US\$500 million 3.625% guaranteed notes due 2025 (note d)	3,821	3,829
EUR200 million 1.65% guaranteed notes due 2027 (note e)	1,666	1,613
US\$100 million zero coupon guaranteed notes due 2030 (note f)	769	770
US\$750 million 3.00% guaranteed notes due 2026 (note g)	–	5,775
Bank borrowings (note h)	23,621	24,907
	38,090	45,131
Secured	–	–
Unsecured	38,090	45,131

26 LONG-TERM BORROWINGS (CONTINUED)

a. 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.

b. 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.

c. 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 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.

d. 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.

e. EUR200 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 EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

f. 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.

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

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

h. 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	2016 Government share under the Cyberport Project Agreement
Beginning of year	322
Reversal	(1)
End of year, classified as current liabilities	321

Pursuant to the Cyberport Project Agreement, the PCPD 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	2015	2016
Non-current assets		
Floating-to-fixed interest rate swap contracts		
– cash flow hedges (<i>note a</i>)	–	62
Fixed-to-fixed cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges (<i>note c</i>)	–	227
	–	289
Current assets		
Currency call spread option (<i>note b</i>)	60	–
	60	–
Non-current liabilities		
Fixed-to-fixed cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges (<i>note c</i>)	(449)	(14)
Fixed-to-floating cross currency swap contracts		
– fair value and cash flow hedges (<i>note d</i>)	(137)	(84)
	(586)	(98)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

- a. During the year ended December 31, 2016, the Group entered into a 5-year floating-to-fixed interest rate swap contract with notional contract amount of HK\$1,500 million. The contract pre-determined the interest rate at a fixed level. The contract was designated as cash flow hedge of the interest rate risk in the Group's floating rate borrowings (see note 37(c)(ii)). 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 cost", represents the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$1 million (2015: nil) for the year ended December 31, 2016 .
- b. 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"). An option premium of US\$8 million (equivalent to HK\$62 million) was paid up-front by the PCPD Group. 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. The Option expired on June 27, 2016. As at June 27, 2016, the fair value of the Option was nil (December 31, 2015: HK\$60 million). Upon the expiry of the Option, the derivative financial instrument has been de-recognized. The total fair value movement of HK\$60 million is recognized in "Other gains, net" in the consolidated income statement for the year ended December 31, 2016.
- c. The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2016 with notional contract amounts of US\$1,250 million (approximately HK\$9,694 million) (2015: US\$500 million (approximately HK\$3,877 million)) were 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 7.7544 to 7.7580 (2015: 7.7545 to 7.7550) 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.
- As at December 31, 2016, the Group had fixed-to-floating cross currency swap contracts with an aggregate notional contract amount of US\$500 million (approximately HK\$3,879 million) (2015: US\$500 million (approximately HK\$3,879 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 7.7570 (2015: 7.7570) for the notional amounts (see note 37(c)(i)). The Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK\$3,879 million (2015: approximately HK\$3,879 million). Accordingly, the Group had a synthetic fixed-to-fixed cross currency swap contract position and re-designated such swap contracts as cash flow hedges. 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 (2015: nil) for the year ended December 31, 2016.
- As at December 31, 2016, the Group had outstanding foreign exchange forward contracts with an aggregate notional contract amount of US\$503 million (approximately HK\$3,887 million) (2015: US\$503 million (approximately HK\$3,887 million)). The contracts were designated as cash flow hedges 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 to 7.7330 (2015: 7.7329 to 7.7330) 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 gain of approximately HK\$19 million (2015: loss of approximately HK\$21 million) for the year ended December 31, 2016.

28 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

c. (continued)

As at December 31, 2016, the Group had an outstanding fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2015: EUR200 million (approximately HK\$1,665 million)). 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 EUR/HKD exchange rate at 8.3245 (2015: 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, no such gain/loss was recognized (2015: loss of approximately HK\$17 million) for the year ended December 31, 2016.

d. The Group had fixed-to-floating cross currency swap contracts outstanding as at December 31, 2016 with an aggregate notional contract amount of US\$300 million (approximately HK\$2,327 million) (2015: US\$300 million (approximately HK\$2,327 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 (2015: 7.7555) for the notional amounts (see note 37(c)(i)). The swaps also pre-determined the interest margin over HIBOR (see note 37(c)(ii)).

These swap 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 consolidated income statement until the repayment of the underlying borrowings.

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 loss of HK\$1 million for the current year (2015: gain of HK\$4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016
(Amount expressed in Hong Kong dollars unless otherwise stated)

29 SHARE CAPITAL

	Year ended December 31,			
	2015		2016	
	Number of shares	Share capital HK\$ million	Number of shares	Share capital HK\$ million
Ordinary shares, issued and fully paid:				
As at January 1,	7,453,177,661	11,720	7,621,350,679	12,505
PCCW Shares issued in lieu of cash dividends (<i>note a</i>)	168,173,018	785	88,287,570	449
PCCW Shares issued for share award scheme (<i>note b</i>)	–	–	10,000,000	–
As at December 31,	7,621,350,679	12,505	7,719,638,249	12,954

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

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.

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

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 the funding valuation as at December 31, 2014, the expected contributions to the DB Schemes for the year ending December 31, 2017 are approximately HK\$13.4 million.

The independent actuarial valuation of the DB Schemes as at December 31, 2016, prepared in accordance with HKAS 19 (2011), was carried out by Ms Wing Lui of Willis Towers Watson, 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 51% (2015: 55%) of the present value of the defined benefit retirement schemes obligations as at December 31, 2016.

The weighted average duration of the defined benefit retirement schemes obligations is 12.2 years (2015: 12.4 years).

30 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

a. Defined benefit retirement schemes (continued)

i. The amount recognized in the consolidated statement of financial position is as follows:

In HK\$ million	2015	2016
Present value of the defined benefit retirement schemes obligations (note iii)	296	317
Fair value of scheme assets (note iv)	(163)	(163)
Defined benefit liability in the consolidated statement of financial position	133	154

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	2015	2016
Equities	52%	50%
Fixed income securities	43%	45%
Cash and alternatives	5%	5%
Total	100%	100%

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 retirement schemes 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 retirement schemes liability/asset, whilst poor or negative investment returns tend to weaken the financial 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 retirement schemes obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit retirement schemes 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 retirement schemes obligations and vice versa.
- Longevity risk: the defined benefit retirement schemes 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 retirement schemes obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

30 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

a. Defined benefit retirement schemes (continued)

iii. Movements in the present value of the defined benefit retirement schemes obligations are as follows:

In HK\$ million	2015	2016
Beginning of year	295	296
Interest cost	6	5
Remeasurements		
Experience losses	2	3
Loss from change in financial assumptions	8	28
Benefits paid	(15)	(15)
End of year	296	317

iv. Movements in the fair value of scheme assets are as follows:

In HK\$ million	2015	2016
Beginning of year	179	163
Contribution from employers	3	7
Interest income on scheme assets	4	3
Return on scheme assets (less)/greater than discount rate	(8)	5
Benefits paid	(15)	(15)
End of year	163	163

v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

In HK\$ million	2015	2016
Net interest on net defined benefit retirement schemes liability	2	2
Total included in General and administrative expenses – retirement costs for other staff	2	2

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

	2015	2016
Discount rate	1.90%	1.20%
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, 2015 and 2016.

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 retirement schemes obligations to changes in the weighted principal assumptions is:

	Change in assumption	Impact on defined benefit retirement schemes obligations			
		2015		2016	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	(3.10%)	3.30%	(3.20%)	3.40%
Pension increase rate	0.25%	3.10%	n/a*	3.20%	n/a*
Mortality	1 year	(4.80%)**	4.90%**	(5.10%)**	5.20%**

* 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 retirement schemes obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit retirement schemes obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the consolidated 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 payments of defined benefit retirement schemes as at December 31, 2015 and 2016 is as follows:

In HK\$ million					
	Within 1 year	More than 1 year but within 2 years	2015 More than 2 years but within 5 years	More than 5 years	Total
Undiscounted payments of defined benefit retirement schemes	14	14	44	312	384

In HK\$ million					
	Within 1 year	More than 1 year but within 2 years	2016 More than 2 years but within 5 years	More than 5 years	Total
Undiscounted payments of defined benefit retirement schemes	15	15	45	299	374

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, 2016.

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 companies. Eligible participants of the Subscription Scheme include employees of the Company and its participating companies, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

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	
	2015	2016
The Purchase Scheme:		
Beginning of year	11,116,787	7,563,005
Purchase from market by the Trustee at weighted average market price of HK\$5.08 (2015: HK\$4.98) per PCCW Share	5,837,000	538,000
Transfer to grantees in lieu of cash dividends	(220)	–
PCCW Shares vested	(9,390,562)	(4,035,311)*
End of year	7,563,005	4,065,694
The Subscription Scheme:		
Beginning of year	10,000,000	7,493,846
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)	(4,043,420)
End of year	7,493,846	13,450,426

* Included 1,473 PCCW Shares vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committees on compassionate grounds.

	Number of Share Stapled Units	
	2015	2016
The Purchase Scheme:		
Beginning of year	194,959	194,623
Purchase from market by the Trustee at weighted average market price of HK\$11.15 (2015: HK\$9.93) per Share Stapled Unit	191,000	243,000
Transfer to grantees for PCCW Shares vested	(75,239)	–
Share Stapled Units vested	(116,097)	(99,453)
End of year	194,623	338,170

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

	2015		2016	
	Weighted average fair value on the date of award HK\$	Number of PCCW Shares	Weighted average fair value on the date of award HK\$	Number of PCCW Shares
The Purchase Scheme:				
Beginning of year	3.62	13,129,985	4.59	6,993,300 [#]
Awarded (note iii)	5.35	3,265,515	5.14	4,546,361
Forfeited (note iv)	4.22	(40,213)	N/A	–
Vested (note v)	3.50	(9,390,562)	4.55	(4,033,838)
End of year (note ii)	4.59	6,964,725	4.94	7,505,823
The Subscription Scheme:				
Beginning of year	3.99	5,108,138	4.81	6,059,227 [#]
Awarded (note iii)	5.35	3,790,428	5.01	3,714,867
Forfeited (note iv)	4.52	(306,131)	4.92	(431,999)
Vested (note v)	3.99	(2,504,633)	4.57	(4,043,420)
End of year (note ii)	4.81	6,087,802	5.12	5,298,675

[#] During the year ended December 31, 2016, 28,575 PCCW Shares awarded on May 7, 2015 under the Subscription Scheme were re-designated as awarded under the Purchase Scheme.

	2015		2016	
	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
The Purchase Scheme:				
Beginning of year	9.04	302,144	9.17	190,293
Awarded (note iii)	10.30	13,163	10.92	1,123,994
Forfeited (note iv)	9.13	(8,917)	10.54	(30,052)
Vested (note v)	8.95	(116,097)	9.13	(99,453)
End of year (note ii)	9.17	190,293	10.80	1,184,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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

			Number of PCCW Shares	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
The Purchase Scheme:				
July 5, 2013	July 5, 2013 to July 8, 2016	3.61	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, 2016	3.99	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	1,748,462
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	612,809
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	–	904,078
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	1,514,738
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	–	1,514,736
			6,964,725	7,505,823
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	2,416,821	–
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	1,719,186
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	1,788,946
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	–	1,787,499
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	1,522
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	–	1,522
			6,087,802	5,298,675
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
The Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,594	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	84,277	–
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	84,259	81,145
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	6,581
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	292,416
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	–	291,957
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	256,342
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	–	256,341
			190,293	1,184,782

The PCCW Shares and Share Stapled Units unvested at December 31, 2016 had a weighted average remaining vesting period of 0.64 year (2015: 0.73 year) and 0.72 year (2015: 0.74 year), 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\$	2015	2016
The Purchase Scheme:				
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	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	612,809
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	–	904,078
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	1,514,738
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	–	1,514,736
			3,265,515	4,546,361
The Subscription Scheme:				
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	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	1,856,674
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	–	1,855,149
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	1,522
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	–	1,522
			3,790,428	3,714,867
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
The Purchase Scheme:				
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	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	305,905
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	–	305,406
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	256,342
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	–	256,341
			13,163	1,123,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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 on the date of award HK\$	2015	2016
The Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	20,142	—
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	7,823	—
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	—
			40,213	—
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	49,900	—
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	136,784	104,346
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	59,763	90,901
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	59,684	101,374
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	—	67,728
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	—	67,650
			306,131	431,999

			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
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	3,114
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	—	13,489
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	—	13,449
			8,917	30,052

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

			Number of PCCW Shares	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
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	3,771,972	–
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
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	–	1,583,499
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	–	1,533,380
			9,390,562	4,033,838
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	2,504,633	–
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	2,312,475
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	1,730,945
			2,504,633	4,043,420
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK\$	2015	2016
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
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	98,778	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	84,277
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	–	6,582
			116,097	99,453

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 ended December 31, 2016, share-based compensation expenses in respect of the PCCW Shares and Share Stapled Units of HK\$47 million (2015: HK\$39 million) are recognized in the consolidated income statement and HK\$47 million (2015: HK\$39 million) are recognized in the employee share-based compensation reserve.

c. Share option schemes of PCPD

On May 6, 2015, the share option scheme of PCPD effective on May 23, 2005 (the “2005 PCPD Scheme”) was terminated 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.

Under the 2015 PCPD Scheme, 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 or exercised under the 2005 PCPD Scheme and the 2015 PCPD Scheme during the years ended December 31, 2015 and 2016. There are no share options outstanding as at December 31, 2015 and 2016.

31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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 (the “Trustee-Manager Board”) of HKT Management Limited (the “Trustee-Manager”) 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 whom 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. The Trustee-Manager is not an eligible participant under the HKT 2011-2021 Option Scheme.
- (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.

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)

(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, 2016.

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.

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)

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.

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, 2016.

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	
	2015	2016
Beginning of year	5,978,109	9,596,941
Purchase from market by the HKT Trustee at weighted average market price of HK\$9.92 per Share Stapled Unit	9,326,000	–
Share Stapled Units vested	(5,707,168)	(4,399,558)*
End of year	9,596,941	5,197,383

* Included 1,302 Share Stapled Units vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committees on compassionate grounds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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)

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

	2015		2016	
	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	8.89	12,995,117	9.27	8,155,710
Awarded (note (iii))	10.30	1,572,820	10.89	2,160,944
Forfeited (note (iv))	9.16	(705,059)	9.57	(154,141)
Vested (note (v))	8.70	(5,707,168)	9.19	(4,398,256)
End of year (note (iii))	9.27	8,155,710	9.93	5,764,257

(ii) Terms of unvested Share Stapled Units at the end of the reporting period

Date of award	Vesting period	Fair value on the date of award HK\$	Number of Share Stapled Units	
			2015	2016
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	718,558	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	2,949,476	–
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,948,821	2,881,371
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	1,215	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	1,215
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	768,644	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	767,781	749,315
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	640,488
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	–	639,494
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	426,187
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	–	426,187
			8,155,710	5,764,257

The Share Stapled Units unvested at December 31, 2016 had a weighted average remaining vesting period of 0.45 year (2015: 0.73 year).

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)

(iii) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK\$	Number of Share Stapled Units	
			2015	2016
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	2,074	–
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	2,070	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	2,070	–
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	783,750	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	782,856	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	654,800
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	–	653,770
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	426,187
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	–	426,187
			1,572,820	2,160,944

(iv) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK\$	Number of Share Stapled Units	
			2015	2016
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,760	–
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	4,041	–
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	14,025	8,772
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	188,004	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	232,725	23,200
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	232,613	67,450
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	7,665
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	15,075	18,466
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	14,312
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	–	14,276
			705,059	154,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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)

(v) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value on the date of award HK\$	Number of Share Stapled Units	
			2015	2016
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	–
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	709,786
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	3,808,265	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	2,926,276
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	2,074	–
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	–	1,215
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	–	760,979
			5,707,168	4,398,256

The fair values of the Share Stapled Units awarded during the year at the dates of award are measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year ended December 31, 2016, share-based compensation expenses in respect of the Share Stapled Units of HK\$33 million (2015: HK\$48 million) are recognized in the consolidated income statement, HK\$21 million (2015: HK\$30 million) are recognized in the employee share-based compensation reserve and HK\$12 million (2015: HK\$18 million) are recognized in the non-controlling interests.

e. Share-based payment transactions with cash alternatives

- i. On May 23, 2013, the PCPD Group entered into the 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 certain 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. PCPD management considered 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, 2016, therefore the fair value of the Supporter Shares is nil (2015: nil).

31 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

e. Share-based payment transactions with cash alternatives (continued)

- ii. On May 23, 2013, the PCPD Group entered into the investor subscription agreement and the 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, 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), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US\$1.

PCPD 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, 2016, therefore the fair value of the Investor Shares is nil (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 RESERVES

In HK\$ million	2015								
	Special capital reserve (note (a))	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
THE GROUP									
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 to consolidated income statement:									
Remeasurements of defined benefit obligations	–	–	–	–	–	–	–	(18)	(18)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	–	–	–	(345)	–	–	–	–	(345)
Available-for-sale financial assets:									
– changes in fair value	–	–	–	–	–	10	–	–	10
– transfer to consolidated income statement on disposal	–	–	–	–	–	(1)	–	–	(1)
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	–	(213)	–	–	–	(213)
– transfer from equity to consolidated 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 under share award scheme	–	(29)	–	–	–	–	–	–	(29)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(57)	(57)
Employee share-based compensation	–	–	69	–	–	–	–	–	69
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	39	(69)	–	–	–	–	28	(2)
Distribution for Share Stapled Units granted under share award schemes	–	–	(2)	–	–	–	–	(1)	(3)
Dividend paid in respect of previous year	(983)	–	(2)	–	–	–	–	–	(985)
Dividend declared and paid in respect 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)

32 RESERVES (CONTINUED)

In HK\$ million	2015				
	Special capital reserve (note (a))	Employee share-based compensation reserve	Hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2015	4,415	20	16	13,497	17,948
Total comprehensive income/(loss) for the year					
Profit for the year	–	–	–	2,134	2,134
Other comprehensive loss					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	–	(48)	–	(48)
Total comprehensive (loss)/income 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 RESERVES (CONTINUED)

In HK\$ million

In HK\$ million	2016								
	Special capital reserve (note (a))	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
THE GROUP									
At January 1, 2016	2,844	(35)	83	(950)	(132)	288	(113)	(3,466)	(1,481)
Total comprehensive income/(loss) for the year									
Profit for the year	-	-	-	-	-	-	-	2,051	2,051
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit obligations	-	-	-	-	-	-	-	(26)	(26)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	-	(135)	-	-	-	-	(135)
Available-for-sale financial assets:									
– changes in fair value	-	-	-	-	-	(6)	-	-	(6)
– transfer to consolidated income statement on impairment	-	-	-	-	-	(4)	-	-	(4)
Cash flow hedges:									
– effective portion of changes in fair value	-	-	-	-	525	-	-	-	525
– transfer from equity to consolidated income statement	-	-	-	-	29	-	-	-	29
Total comprehensive income/(loss) for the year	-	-	-	(135)	554	(10)	-	2,025	2,434
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	-	(3)	-	-	-	-	-	-	(3)
Purchases of Share Stapled Units under share award schemes	-	-	-	-	-	-	-	(3)	(3)
Employee share-based compensation	-	-	68	-	-	-	-	-	68
Vesting of PCCW Shares and Share Stapled Units under share award schemes	-	20	(66)	-	-	-	-	34	(12)
Distribution for Share Stapled Units granted under share award schemes	-	-	(2)	-	-	-	-	(1)	(3)
Dividend paid in respect of previous year	(1,298)	-	(1)	-	-	-	-	-	(1,299)
Dividend declared and paid in respect of the current year	(628)	-	(1)	-	-	-	-	-	(629)
Total transactions with equity holders	(1,926)	17	(2)	-	-	-	-	30	(1,881)
At December 31, 2016	918	(18)	81	(1,085)	422	278	(113)	(1,411)	(928)

32 RESERVES (CONTINUED)

In HK\$ million	2016				Total
	Special capital reserve (note (a))	Employee share-based compensation reserve	Hedging reserve	Retained profits	
THE COMPANY					
At January 1, 2016	2,829	20	(32)	15,631	18,448
Total comprehensive income for the year					
Profit for the year	–	–	–	2,323	2,323
Other comprehensive income					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	–	77	–	77
Total comprehensive income for the year	–	–	77	2,323	2,400
Transactions with equity holders					
Dividend paid in respect of previous year	(1,299)	–	–	–	(1,299)
Dividend declared and paid in respect of the current year	(629)	–	–	–	(629)
Total transactions with equity holders	(1,928)	–	–	–	(1,928)
At December 31, 2016	901	20	45	17,954	18,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

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, 2016, there was no cash (2015: 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, 2016, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK\$901 million (2015: HK\$2,829 million). Inclusive of retained profits of HK\$17,954 million (2015: HK\$15,631 million), the Company has total distributable reserves of HK\$18,855 million as at December 31, 2016 (2015: HK\$18,460 million).

33 DEFERRED INCOME TAX

a. Movement in deferred income tax liabilities/(assets) during the year is as follows:

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

In HK\$ million	2016					
	Accelerated tax depreciation and amortization	Valuation adjustment resulting from acquisition of subsidiaries	Revaluation of properties	Tax losses	Others	Total
Beginning of year	2,539	308	(1)	(1,145)	8	1,709
Charged/(Credited) to consolidated income statement (<i>note 12(a)</i>)	169	(37)	–	(318)	(8)	(194)
Exchange differences	–	–	–	3	–	3
Transferred to disposal group classified as held for sale (<i>note 25(h)</i>)	–	–	–	264	–	264
End of year	2,708	271	(1)	(1,196)	–	1,782

33 DEFERRED INCOME TAX (CONTINUED)

a. Movement in deferred income tax liabilities/(assets) during the year is as follows: (continued)

In HK\$ million	2015	2016
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	(849)	(1,086)
Deferred income tax assets to be recovered within 12 months	(217)	(48)
Net deferred income tax assets recognized in the consolidated statement of financial position	(1,066)	(1,134)
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	2,473	2,702
Deferred income tax liabilities to be recovered within 12 months	302	214
Net deferred income tax liabilities recognized in the consolidated statement of financial position	2,775	2,916
	1,709	1,782

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. For the year ended December 31, 2016, recognition of tax losses included HK\$264 million, which have been transferred to disposal group classified as held for sale (note 25(h)). As at December 31, 2016, the Group had unutilized estimated tax losses for which no deferred income tax assets had been recognized of HK\$7,988 million (2015: HK\$8,925 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$55 million (2015: HK\$53 million) and HK\$700 million (2015: HK\$969 million) will expire within 1 to 5 years and after 5 years from December 31, 2016 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, 2016, the Group had carrier licence fee liabilities payable as follows:

In HK\$ million		2015			2016	
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Payable within a period						
– not exceeding one year	448	34	482	173	7	180
– over one year, but not exceeding two years	123	19	142	123	19	142
– over two years, but not exceeding five years	312	112	424	312	112	424
– over five years	192	100	292	109	41	150
	1,075	265	1,340	717	179	896
Less: Amounts payable within one year included under current liabilities	(448)	(34)	(482)	(173)	(7)	(180)
	627	231	858	544	172	716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

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	2015	2016
Profit before income tax	4,440	4,227
Adjustment for:		
Interest income	(87)	(52)
Finance costs	1,634	1,429
Gain on disposal of an associate	(75)	–
Gain on remeasuring an available-for-sale investment upon a step acquisition	(29)	–
Fair value losses/(gains) on investment properties	4	(2)
Net gains on cash flow hedging instruments transferred from equity	(56)	–
Net gains on fair value hedging instruments	(48)	(4)
Fair value movement of derivative financial instrument	2	60
Net realized gains on disposal of available-for-sale financial assets	(32)	(106)
Provision for impairment of an interest in an associate	95	–
Provision for impairment of an interest in a joint venture	5	–
Provision for impairment of available-for-sale financial assets	2	19
Gain on disposal of other non-current assets	(2)	–
Loss/(gain) on disposal of property, plant and equipment and intangible assets, net	3	(3)
Impairment loss for doubtful debts	312	337
Provision for inventory obsolescence	10	4
Depreciation of property, plant and equipment	2,141	1,774
Amortization of intangible assets	3,897	4,908
Amortization of land lease premium – interests in leasehold land	22	20
Share of results of associates and joint ventures	(37)	(45)
Increase in treasury stock for the purchases of PCCW Shares under share award scheme	(29)	(3)
Decrease in equity for the purchases of Share Stapled Units under share award schemes	(57)	(3)
Decrease in non-controlling interests for the purchases of Share Stapled Units under share award schemes	(37)	–
Share-based compensation expenses	87	80
Pension cost for defined benefit retirement schemes	2	2
(Increase)/Decrease in operating assets		
– properties held for/under development	(12)	(42)
– sales proceeds held in stakeholders' accounts	15	3
– restricted cash	916	(33)
– prepayments, deposits and other current assets	(617)	(2,102)
– inventories	18	(116)
– amounts due from related companies	56	3
– trade receivables	289	(150)
– other non-current assets	(35)	(106)
Increase/(Decrease) in operating liabilities		
– trade payables, accruals and other payables and deferred income	332	539
– amount payable to the Government under the Cyberport Project Agreement	(200)	(1)
– amounts due to related companies	(47)	(50)
– advances from customers	2	(7)
– defined benefit liability	(3)	(7)
– other long-term liabilities	33	(31)
CASH GENERATED FROM OPERATIONS	12,914	10,542
Interest received	36	22
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(372)	(523)
– overseas profits tax paid	(60)	(88)
NET CASH GENERATED FROM OPERATING ACTIVITIES	12,518	9,953

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

b. Cash flows for business combinations

In HK\$ million	2015	2016
Net assets acquired:		
Property, plant and equipment	70	–
Intangible assets	498	–
Deferred income tax assets	8	–
Prepayments, deposits, trade receivables, net and other current assets	93	–
Cash and cash equivalents	68	–
Short-term borrowings	(23)	–
Trade payables, accruals and other payables	(84)	–
Advances from customers	(11)	–
Current income tax liabilities	(6)	–
Long-term borrowings	(10)	–
Deferred income tax liabilities	(194)	–
	409	–
Non-controlling interests	(19)	–
	390	–
Goodwill on acquisitions	1,094	–
Purchase consideration	1,484	–
Satisfied by:		
Cash	1,283	–
Settlement of obligation assumed upon business combinations	26	–
Fair value of equity interests in the Vuclip Group (as defined in note 41(b)(i)) at the date when control was obtained by the Group	107	–
Consideration payable	68	–
	1,484	–
Analysis of the net outflow of cash and cash equivalents in respect of business combinations:		
Purchase consideration settled in cash	(1,283)	–
Settlement of obligation assumed upon business combinations	(26)	–
Cash and cash equivalents of subsidiaries acquired	68	–
	(1,241)	–
Settlement of contingent considerations/considerations in respect of business combinations in prior years	(77)	(13)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

c. Cash flows from disposal of interests in subsidiaries

The net cash outflow of HK\$452 million for the year ended December 31, 2015 represented the payment of tax and direct expenses in 2015 in relation to the disposal of Gain Score Limited, an indirect non-wholly owned subsidiary of the Company, and its subsidiaries completed in prior year.

d. Analysis of cash and cash equivalents

In HK\$ million	2015	2016
Total cash and bank balances	7,610	5,349
Less: short-term deposits	(1)	(453)
Less: restricted cash	(106)	(139)
Less: included in disposal group classified as held for sale (note 25(h))	–	(6)
Cash and cash equivalents as at December 31,	7,503	4,751

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 loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

37 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK\$ million	2015			Total
	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	
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 (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, 2016

(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 used for hedging	2015 Other financial liabilities at 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

37 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million

		2016		
	Loans and receivables	Derivatives used for hedging	Available- for-sale financial assets	Total
Non-current assets				
Available-for-sale financial assets	–	–	1,057	1,057
Derivative financial instruments	–	289	–	289
Other non-current assets	157	–	–	157
	157	289	1,057	1,503
Current assets				
Sale proceeds held in stakeholders' accounts	510	–	–	510
Restricted cash	139	–	–	139
Prepayments, deposits and other current assets (excluding prepayments)	7,112	–	–	7,112
Amounts due from related companies	98	–	–	98
Trade receivables, net	3,778	–	–	3,778
Short-term deposits	453	–	–	453
Cash and cash equivalents	4,751	–	–	4,751
	16,841	–	–	16,841
Total	16,998	289	1,057	18,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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 used for hedging	2016 Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	457	457
Trade payables	–	2,731	2,731
Accruals and other payables	–	6,844	6,844
Amount payable to the Government under the Cyberport Project Agreement	–	321	321
Carrier licence fee liabilities	–	173	173
Amounts due to related companies	–	35	35
	–	10,561	10,561
Non-current liabilities			
Long-term borrowings	–	45,131	45,131
Derivative financial instruments	98	–	98
Carrier licence fee liabilities	–	544	544
Other long-term liabilities	–	808	808
	98	46,483	46,581
Total	98	57,044	57,142

37 FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 payables 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, 2015 and 2016, 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, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2015 and 2016, 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, 2016

(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	2015				Total contractual undiscounted cash outflow	Carrying amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
Current liabilities						
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 under the Cyberport Project 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 (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)

37 FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

In HK\$ million

	2016					
	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 outflow	Carrying amount
Current liabilities						
Short-term borrowings	(479)	–	–	–	(479)	(457)
Trade payables	(2,731)	–	–	–	(2,731)	(2,731)
Accruals and other payables	(6,844)	–	–	–	(6,844)	(6,844)
Amount payable to the Government under the Cyberport Project Agreement	(321)	–	–	–	(321)	(321)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(35)	–	–	–	(35)	(35)
	(10,590)	–	–	–	(10,590)	(10,561)
Non-current liabilities						
Long-term borrowings (note iii)	(991)	(2,166)	(26,193)	(25,219)	(54,569)	(45,131)
Derivative financial instruments	(33)	(51)	(199)	219	(64)	(98)
Carrier licence fee liabilities	–	(142)	(424)	(150)	(716)	(544)
Other long-term liabilities (note ii)	(82)	(59)	(29)	(1,255)	(1,425)	(808)
	(1,106)	(2,418)	(26,845)	(26,405)	(56,774)	(46,581)
Total	(11,696)	(2,418)	(26,845)	(26,405)	(67,364)	(57,142)

- i. As at December 31, 2015, derivative financial instruments of HK\$22 million related to 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(c) and 26(f) and note 28(c) for details of the guaranteed notes and the foreign exchange forward contracts respectively. As at December 31, 2016, the aggregate carrying value of the above derivative financial instruments of HK\$49 million was included in non-current assets.
- ii. As at December 31, 2016, other long-term liabilities included HK\$102 million (2015: HK\$47 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2015: EUR200 million (approximately HK\$1,665 million)). Please refer to notes 26(e) and 28(c) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.
- iii. As at December 31, 2016, bank borrowings of HK\$1,950 million (2015: nil) included in long-term borrowings was drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Group during the year ended December 31, 2016.

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, interest rate swap contract, 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, 2015 and 2016, 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, 2016 with an aggregate notional contract amount of US\$2,553 million (approximately HK\$19,787 million) (2015: US\$1,803 million (approximately HK\$13,970 million)) and EUR200 million (approximately HK\$1,665 million) (2015: EUR200 million (approximately HK\$1,665 million)) were designated or re-designated as cash flow hedges and fair value hedges against foreign currency risk.

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

37 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

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

In HK\$ million	2015			2016		
	United States Dollar	Euro	Chinese Renminbi	United States Dollar	Euro	Chinese Renminbi
Restricted cash	–	–	–	–	–	8
Amounts due from related companies	–	–	13	–	–	9
Trade receivables	1,468	197	361	1,103	168	337
Short-term deposits	–	–	–	–	–	3
Cash and cash equivalents	1,630	37	458	1,524	51	225
Trade payables	(1,494)	(61)	(203)	(1,699)	(153)	(145)
Amounts due to related companies	(74)	–	–	(33)	–	–
Short-term borrowings	(3,879)	–	–	(457)	–	–
Long-term borrowings	(12,803)	(1,666)	–	(18,611)	(1,613)	–
Gross exposure arising from monetary (liabilities)/assets	(15,152)	(1,493)	629	(18,173)	(1,547)	437
Less: Net monetary (assets)/liabilities denominated in respective entities' functional currencies	(225)	(52)	(629)	317	(78)	(424)
Less: Borrowings with hedging instruments	12,803	1,666	–	18,611	1,613	–
Overall net exposure	(2,574)	121	–	755	(12)	13

37 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

As at December 31, 2016, 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 increased/decreased by approximately HK\$6 million (2015: decreased/increased by approximately HK\$21 million), mainly as a result of foreign exchange gains/losses (2015: losses/gains) on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2016 would have been debited/credited by approximately HK\$108 million (2015: HK\$71 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, 2016, 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 decreased/increased by an immaterial amount (2015: increased/decreased by approximately HK\$5 million), mainly as a result of foreign exchange losses/gains (2015: gains/losses) on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2016 would have been debited/credited by approximately HK\$51 million (2015: HK\$53 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2016, 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 HK\$1 million (2015: an immaterial amount), 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 as at the end of the reporting period and had been applied to the Group's exposure to currency risk for monetary 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 2015 and 2016.

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 or United States dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain of its fixed rate long-term borrowings and floating-to-fixed swap contracts to hedge the cash flow interest rate risk arising from certain of its floating 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 and interest rate swap contracts designated as cash flow and fair value hedging instruments.

In HK\$ million, except for %	2015		2016	
	Effective interest rate %		Effective interest rate %	
Fixed rate borrowings:				
Short-term borrowings	3.17	3,879	–	–
Long-term borrowings with hedging instruments	4.08	12,275	3.58	18,034
Long-term bank borrowings with hedging instruments	–	–	1.84	1,484
		16,154		19,518
Variable rate borrowings:				
Short-term bank borrowings	–	–	5.18	457
Long-term bank borrowings	1.60	23,621	1.52	23,423
Long-term borrowings with hedging instruments	5.04	2,194	5.24	2,190
		25,815		26,070
Total borrowings		41,969		45,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

37 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

ii. Interest rate risk (continued)

As at December 31, 2016, if interest rates on variable rate borrowings had been increased/decreased by 50 basis points (2015: 20 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\$85 million (2015: HK\$35 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 50 basis points (2015: 20 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2015 and 2016.

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 recognized stock exchange markets.

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, 2015 and 2016 except as follows:

In HK\$ million	2015		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Short-term borrowings	(3,879)	(3,890)	(457)	(457)
Long-term borrowings	(38,090)	(38,600)	(45,131)	(45,168)

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	2015			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	24	–	–	24
– Unlisted equity securities	–	–	782	782
Derivative financial instruments (current)	–	60	–	60
Total assets	24	60	782	866
Liabilities				
Contingent consideration payable	–	–	(22)	(22)
Derivative financial instruments (non-current)	–	(586)	–	(586)
Total liabilities	–	(586)	(22)	(608)
In HK\$ million	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	12	–	–	12
– Unlisted equity securities	–	–	1,045	1,045
Derivative financial instruments (non-current)	–	289	–	289
Total assets	12	289	1,045	1,346
Liabilities				
Contingent consideration payable	–	–	(22)	(22)
Derivative financial instruments (non-current)	–	(98)	–	(98)
Total liabilities	–	(98)	(22)	(120)

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, interest rate 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 establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the consolidated 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 (2015: 3 – 20)
- Liquidity discount: 15% – 30% (2015: 15% – 30%)
- Market size discount: 15% – 70% (2015: 15% – 70%)
- Future growth rates: 10% – 50% (2015: 10% – 50%)

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the year ended December 31, 2016.

There were no material changes in valuation techniques from December 31, 2015.

The following table presents the changes in level 3 instruments for the year ended December 31, 2016:

In HK\$ million	Available-for-sale financial assets – unlisted equity securities		Contingent consideration payable	
	2015	2016	2015	2016
Beginning of year	650	782	–	(22)
Additions	172	378	(22)	–
Disposals	(30)	(115)	–	–
Reclassification of equity interests upon step acquisition	(78)	–	–	–
Impairment loss recognized	(2)	–	–	–
Unrealized fair value gains transferred to equity	70	–	–	–
End of year	782	1,045	(22)	(22)

The estimated fair value of level 3 financial assets as at December 31, 2016 was HK\$1,045 million (2015: HK\$782 million).

During the year ended December 31, 2015, provision for impairment of HK\$2 million was included in “Other gains, net” in the consolidated income statement and there was no transfer from equity to the consolidated income statement on impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(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	2015	2016
Investments	170	64
Investment properties	1,254	472
Property under development	19	34
Acquisition of property, plant and equipment	701	715
	2,144	1,285

b. Operating leases

As at December 31, 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	2015	2016
Within 1 year	1,321	1,371
After 1 year but within 5 years	1,573	1,312
After 5 years	391	280
	3,285	2,963

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2016 (2015: 1 to 15 years). None of the leases include material contingent rentals.

38 COMMITMENTS (CONTINUED)

b. Operating leases (continued)

Network capacity and equipment

In HK\$ million	2015	2016
Within 1 year	1,139	942
After 1 year but within 5 years	853	889
After 5 years	266	299
	2,258	2,130

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2016 (2015: 1 to 15 years). None of the leases include material contingent rentals.

c. Others

As at December 31, 2016, the Group has other outstanding commitments as follows:

In HK\$ million	2015	2016
Purchase of rights to broadcast certain TV content	1,696	1,306
Operating expenditure commitment	2,171	214
	3,867	1,520

39 CONTINGENT LIABILITIES

In HK\$ million	2015	2016
Performance guarantees	2,391	923
Tender guarantees	–	1
Guarantees given to banks in respect of credit facilities granted to an associate	60	56
Guarantees in lieu of cash deposit	7	2
Employee compensation	12	6
Guarantees indemnity	11	11
	2,481	999

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

40 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2016 was HK\$38,786 million (2015: HK\$38,431 million) of which the unused facilities amounted to HK\$13,133 million (2015: HK\$14,535 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors their compliance with these covenants. As at December 31, 2016, none of the covenants relating to drawn down facilities was breached. Further details of the Group's management of liquidity risk are set out in note 37(b).

Summaries of short-term and long-term borrowings are set out in notes 25(f) and 26 respectively.

Security pledged for certain bank loan facilities includes:

In HK\$ million	2015	2016
Property, plant and equipment	2	2
Investment properties	2,058	3,188
Other current assets	143	87
Restricted cash	–	8
Cash and cash equivalents	39	88
	2,242	3,373

Performance guarantee of approximately HK\$161 million (2015: HK\$161 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, 2016.

41 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2016

There was no business combination transaction occurred for the year ended December 31, 2016.

b. 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.

41 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations during the year ended December 31, 2015 (continued)

i. Acquisition of Vuclip, Inc. and its subsidiaries (together the "Vuclip Group") (continued)

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 has been finalized. The fair values of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their provisional amounts as at the date when the Group obtained control of the acquired companies. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2016 is required.

- (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 acquired and 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: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

41 BUSINESS COMBINATIONS (CONTINUED)

b. 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	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
Settlement of consideration payable for the year ended December 31, 2016	13

(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.

41 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations during the year ended December 31, 2015 *(continued)*

i. Acquisition of Vuclip, Inc. and its subsidiaries (together the “Vuclip Group”) (continued)

(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.

(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, 2016, there had been no material change in the estimate of fair value of the contingent consideration.

ii. Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together “Relish”)

On April 7, 2015, the Group acquired approximately 92.9% of the then issued ordinary share capital of Relish Networks plc and increased its interest to 100% by the end of June 2015 for a total consideration of approximately GBP16.6 million (approximately HK\$196 million). Relish Networks plc is a company engaged in the provision of predominantly fixed network services to campus-based customers in the United Kingdom. A payment of approximately GBP16.3 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 has been finalized. The fair values of the acquirees’ identifiable assets, liabilities and contingent liabilities are concluded to be the same as their provisional amounts as at the acquisition date. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2016 is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

(Amount expressed in Hong Kong dollars unless otherwise stated)

41 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations during the year ended December 31, 2015 (continued)

ii. Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together "Relish") (continued)

(i) Details of net assets acquired and goodwill in respect of the acquisition of Relish at the acquisition date were as follows:

In HK\$ million	Net assets acquired and goodwill
Purchase consideration settled in cash	166
Consideration payable	4
Obligation assumed upon business combination	26
Aggregate purchase consideration	196
Less: 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.

None of the goodwill is expected to be deductible for tax purposes.

The assets and liabilities of Relish at the acquisition date were as follows:

In HK\$ million	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

41 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations during the year ended December 31, 2015 (continued)

ii. Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together "Relish") (continued)

(i) Details of net assets acquired and goodwill in respect of the acquisition of Relish at the acquisition date were as follows:
(continued)

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

Relish'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 Relish has been integrated into the Group since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of Relish 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.

42 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. The balance remained HK\$5 million as at December 31, 2016.

43 POSSIBLE IMPACT OF AMENDMENTS AND NEW OR AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments and new or amended standards which are not yet effective for the accounting period ended December 31, 2016 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 7 (Amendment)	Statement of Cash Flows	January 1, 2017
HKAS 12 (Amendment)	Income Taxes	January 1, 2017
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2018
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
HKFRS 16	Leases	January 1, 2019

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2016 and have not been early adopted in these financial statements.

None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 15, "Revenue from Contracts with Customers"

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognized as an asset under HKFRS 15. At this stage, the Group is in the process of assessing the impact of HKFRS 15 on the Group's financial statements.

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 38(b) will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2016

Results

In HK\$ million	2012	2013	2014	2015	2016
Revenue	25,318	27,317	33,277	39,314	38,384
Cost of sales	(11,816)	(13,111)	(15,151)	(18,965)	(17,743)
General and administrative expenses	(10,150)	(10,735)	(14,091)	(14,534)	(15,114)
Other gains, net	371	685	2,717	135	32
Interest income	62	80	90	87	52
Finance costs	(966)	(1,111)	(1,418)	(1,634)	(1,429)
Share of results of equity accounted entities	(22)	140	50	37	45
Profit before income tax	2,797	3,265	5,474	4,440	4,227
Income tax	(232)	(210)	(803)	(447)	(395)
Profit for the year	2,565	3,055	4,671	3,993	3,832
Attributable to:					
Equity holders of the Company	1,661	1,885	3,310	2,295	2,051
Non-controlling interests	904	1,170	1,361	1,698	1,781

Assets and Liabilities

As at December 31, in HK\$ million	2012	2013	2014	2015	2016
Total non-current assets	33,070	36,358	51,648	54,619	59,070
Total current assets	16,774	17,579	21,391	20,139	20,514
Total current liabilities	(19,412)	(10,658)	(19,018)	(17,493)	(14,084)
Total non-current liabilities	(22,294)	(34,646)	(41,652)	(43,923)	(50,724)
Net assets	8,138	8,633	12,369	13,342	14,776

Distributable Reserves of the Company

As at December 31, in HK\$ million	2012	2013	2014	2015	2016
Distributable reserves of the Company	17,418	15,874	17,912	18,460	18,855

INVESTOR RELATIONS

DIRECTORS

The directors of the Company as at the date of the announcement of the 2016 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

Bernadette M. Lomas

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 2016

This Annual Report 2016 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) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:

- A) received the Annual Report 2016 using electronic means through the website of the Company may request a printed copy, or
- B) received the Annual Report 2016 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

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 2016) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2016 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2016 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

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
Website: www.citi.com/dr

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2016:	7,719,638,249 shares

DIVIDEND

Dividend per ordinary share for the year ended December 31, 2016:	
Interim	8.16 HK cents
Final	20.17 HK cents*

* Subject to the approval of shareholders at the 2017 Annual General Meeting

FINANCIAL CALENDAR

Announcement of 2016 Annual Results	January 16, 2017
Closure of register of members (for determination of shareholders who qualify for 2016 final dividend)	March 23-24, 2017 (both days inclusive)
Record date for 2016 final dividend	March 24, 2017
Payment of 2016 final dividend	On or around April 19, 2017
2017 Annual General Meeting	March 17, 2017

INVESTOR RELATIONS

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41st Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2514 5084
Email: ir@pccw.com

WEBSITE

www.pccw.com

Appendix

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



CONTENTS

About This Report	A4
Corporate Social Responsibility at PCCW	A6
Reporting on Environmental Aspects	A10
Aspect A1: Emissions	A11
Aspect A2: Use of Resources	A13
Aspect A3: The Environment and Natural Resources	A15



Reporting on Social Aspects	A16
Employment and Labor Practices	A16
Aspect B1: Employment	A16
Aspect B2: Health and Safety	A18
Aspect B3: Development and Training	A19
Aspect B4: Labor Standards	A19
Operating Practices	A20
Aspect B5: Supply Chain Management	A20
Aspect B6: Product Responsibility	A21
Aspect B7: Anti-Corruption	A25
Community	A26
Aspect B8: Community Investment	A26
References to “HKEX ESG Reporting Guide”	A31



ABOUT THIS REPORT

This is PCCW Limited's (referred to in this report as "PCCW Group" or "the Group" or "the Company" or "PCCW") (Stock code: 0008) first annual Environmental, Social and Governance (ESG) report. The report covers the financial year ended December 31, 2016 and discloses information on PCCW's ESG management approach, strategy, priorities and objectives.

The report explains how PCCW complies with the "comply or explain" provisions of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (HKEX ESG Reporting Guide).

This report has been reviewed and approved by PCCW's Board of Directors.

REPORT SCOPE

This report covers PCCW's core businesses in Hong Kong – namely telecommunications, media and IT solutions.

While the Hong Kong business of HKT Trust and HKT Limited ("HKT") (Stock code: 6823) – in which the Group holds a majority interest – is covered in this report, it is also issuing a separate ESG report. HKT is Hong Kong's premier telecommunications service provider and the leading operator for fixed-line, broadband and mobile communication services.

PCCW Media and PCCW Solutions – wholly-owned by the Group – are also covered in this report. PCCW Media is a fully integrated multimedia and entertainment group in Hong Kong. PCCW Solutions is a leading

The content of the report focuses on material sustainability areas – based on PCCW's most significant economic, environmental and social impacts, as well as the areas that are of the greatest interest or concern to stakeholders – identified through a comprehensive materiality assessment, which included stakeholder engagement. Details of the process are set out in the "Corporate Social Responsibility at PCCW" section of this report.

IT outsourcing and business process outsourcing provider in Hong Kong and mainland China.

Pacific Century Premium Developments Limited (Stock code: 0432) – in which the Group holds a majority interest – is not covered in this report and is issuing a separate ESG report.

References to PCCW's subsidiaries and outsourced operations activities are made, where relevant. PCCW's joint ventures are not covered in this report.

The report highlights PCCW's sustainability efforts in:

- Environmental Aspects (emissions, use of resources, the environment and natural resources)
- Social Aspects (employment, health and safety, development and training, labor standards, supply chain management, product responsibility, anti-corruption and community investment)

For details of our corporate governance, please refer to the Corporate Governance Report included in PCCW's Annual Report 2016.



HIGHLIGHTS

EMISSIONS

Company e-procurement, e-payment and e-leave systems reduce paper usage.

Around **90%** of broadband, mobile and Now TV customers receive e-bills. E-billing extended to residential fixed-line customers in November.

USE OF RESOURCES

Voluntary disclosure of carbon emission data on the Carbon Footprint Repository of Environmental Protection Department.

Continually modernizes telecom exchanges and equipment; mobile network integration achieves energy efficiency and savings.

Smart Charge electric vehicle charging solutions promotes electric mobility and a cleaner environment.

EMPLOYMENT

Receives the Duty of Care: Outstanding Employers in Hong Kong Award from the International SOS Foundation and Employers' Federation of Hong Kong.

DEVELOPMENT AND TRAINING

1,400 learning and development programs and seminars held for staff.

SUPPLY CHAIN AND PROCUREMENT

Compliance with **ISO 9001** (2008) version.

RESPONSIBLE NETWORK MANAGEMENT

Fibre-To-The-Building coverage reaches **87.6%**, with **83.5%** Fibre-To-The-Home coverage.

DATA PRIVACY AND SECURITY

ISO 27001 certified IT Security Management Systems.

COMMUNITY INVESTMENT

26 ongoing and **15** special programs in partnership with NGOs, charitable organizations and social services groups.

Over **20,000** volunteer service hours in 2016.



CORPORATE SOCIAL RESPONSIBILITY AT PCCW

As Hong Kong's leading information and communications technology (ICT) and media service provider, corporate social responsibility (CSR) is an integral part of our business strategy. We are committed to operating in a manner that is economically, socially and environmentally sustainable while balancing the interests of our various stakeholders and providing a valuable service to society. Meeting this commitment is an important management objective and the individual and collective responsibility of all PCCW Group employees.

CSR GOVERNANCE STRUCTURE

PCCW's Board of Directors supports our CSR commitment. The development of our CSR policies is the responsibility of the CSR Committee, which is chaired by the Head of Group Communications and comprised of representatives of the Group Functional Unit Heads. The CSR Committee meets regularly and reports directly to the Executive Committee.

Parties	CSR Responsibilities
Board of Directors	- Monitors corporate governance practices and procedures; and maintains appropriate and effective risk management and internal control systems of the Group to ensure compliance with applicable rules and regulations - Approves CSR Policy and Corporate Responsibility Policy
Executive Committee	Operates as a general management committee with overall delegated authority from the Board
Audit Committee	- Assists the Board with ensuring the objectivity and credibility of financial reporting, and that the directors have exercised care, diligence and skills prescribed by law when presenting results to shareholders - Assists the Board with ensuring that risk management and effective internal control systems are in place and good corporate governance standards and practices are maintained
Risk Management, Controls and Compliance Committee	Reviews procedures for preparation of PCCW's annual and interim reports and, from time to time, corporate policies of the Group to ensure compliance with the various rules and obligations of a Hong Kong-listed company, and assists directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis
CSR Committee	- Ensures that the Company operates in a manner that enhances its positive contribution to society and the environment - Reviews the Company's CSR strategy, principles and policies - Sets guidance and direction of and oversees CSR practices and procedures - Monitors progress on CSR and related activities
CSR Team	- Promotes CSR internally and externally - Organizes and implements CSR initiatives
Departments and Business Units	Implement CSR practices and ensure CSR compliance in daily operations



OUR POLICIES

Corporate Social Responsibility Policy

PCCW's Corporate Social Responsibility Policy (CSR Policy) consists of a set of rules approved by the PCCW's Board of Directors, which applies throughout the PCCW Group. This CSR Policy is a clear and simple statement of how the Group interacts with its stakeholders, society at large and the environment to meet and exceed minimum legal standards.

The CSR Policy applies to all directors, officers and employees of the Group. All contractors, subcontractors and individuals acting for or on behalf of the Group are informed of the CSR Policy. All companies in the Group's supply chain are encouraged to adopt the CSR Policy as best practice guidance for their own businesses with the aim of ensuring consistent operational practices that contribute to a more sustainable world.

Corporate Responsibility Policy

PCCW's Corporate Responsibility Policy (CR Policy) offers guidelines for stakeholder engagement. The Group's main stakeholders are customers, employees, local communities, suppliers and business partners, investors and regulators.

The requirements of the CR Policy are complementary to those of the CSR Policy, which enable the Company to achieve a high standard of business ethics, governance and integrity.

All employees have a duty to uphold the standards established in the CR Policy, which go beyond minimum legal standards. The CR Policy is a clear and simple guide for employee conduct in areas such as:

- compliance with laws, regulations and PCCW Group policies
- civic behavior and responsibility, including fair competition
- maintaining a safe and respectful workplace, including equal opportunities as well as health and safety
- fair business dealings and avoidance of conflicts of interest
- do not misuse inside information
- communications safeguards, including the quality of public disclosures
- property and records management
- privacy and information protection
- avoidance of bribery
- avoidance of gifts and entertainment
- whistle-blowing

PCCW's CSR Policy covers five key areas of responsibility:



The CR Policy also serves to meet legal and auditing requirements for corporate governance purposes, and all employees of PCCW and its subsidiary companies must agree to comply with the CR Policy by signing a compliance declaration upon their recruitment and during their annual performance reviews.

The CR Policy has been approved by the Board, which has delegated responsibility to its committees with clear terms of reference for approving company strategies, setting management targets and supervising management performance. PCCW remains alert to shifts in the external environment and regularly reviews its CSR and CR practices and policies to ensure they remain relevant to the Group's business and in compliance with current laws and regulations.

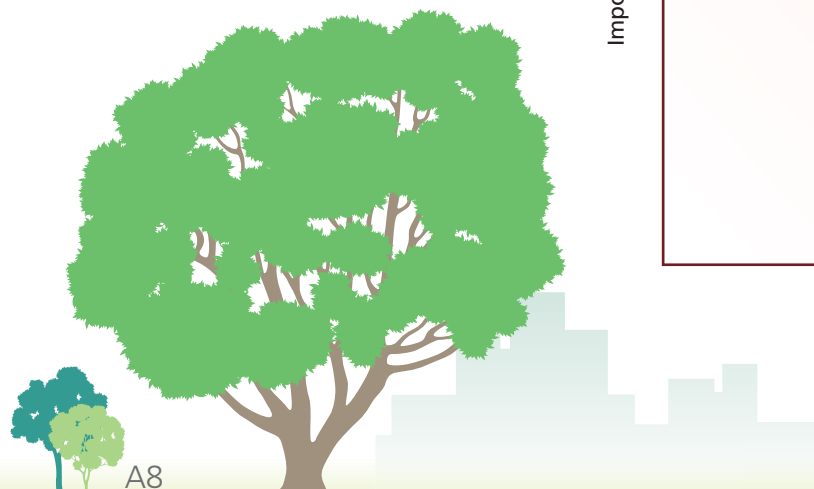
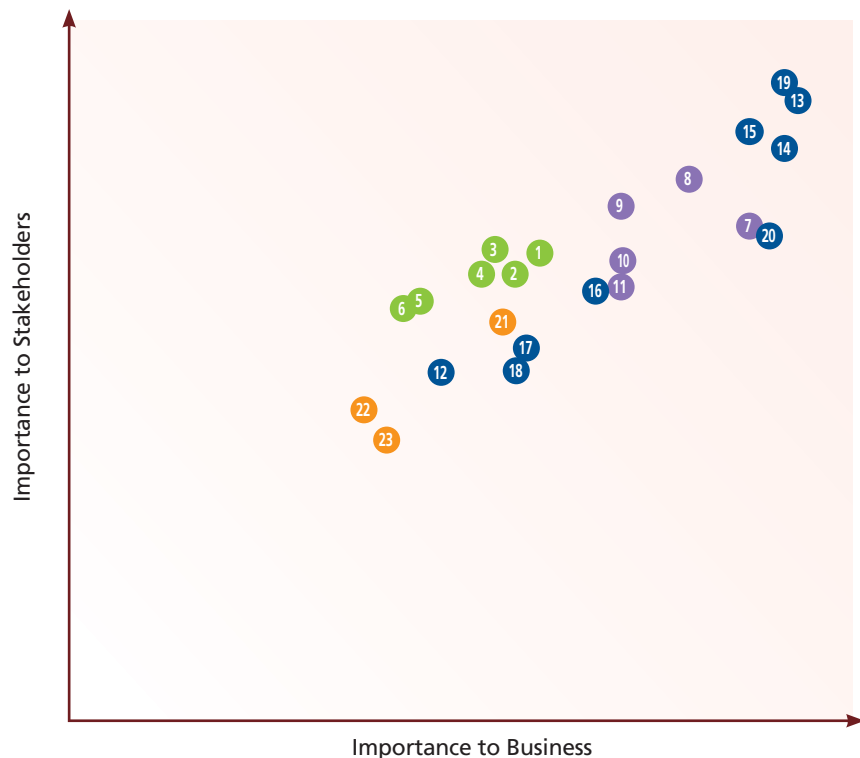
The Group has also adopted policies and procedures to assess and improve the effectiveness of its risk management and internal control functions. The Risk Management, Controls and Compliance Committee reviews the design, implementation and monitoring of the risk management and internal control systems for PCCW and its subsidiaries regularly. For more details, please refer to PCCW's Annual Report 2016.

STAKEHOLDER ENGAGEMENT and MATERIALITY

We understand that stakeholder engagement is one of the key drivers in the continuous improvement of our ESG performance. We endeavor to supply our shareholders, customers, employees, suppliers, other stakeholders and all interested parties with clear information about our approach to ESG issues.

We conducted a comprehensive materiality assessment that included focus groups, interviews and a survey of internal and external stakeholders to identify issues that reflect significant economic, environmental and social impacts of our business, and the issues that matter most to our stakeholders. Based on the results of this assessment, we have identified the following 23 material areas for inclusion in this report:

PCCW ESG Materiality Matrix



A. Environmental

HKEX ESG Guide Aspects	Material Areas
A1 Emissions	1. Carbon emissions
A2 Use of Resources	2. Waste management
A3 The Environment and Natural Resources	3. Computers and commodities (e-waste)
	4. Energy
	5. Green ICT solutions
	6. Employee environmental awareness

B. Social

Employment and Labor Practices

HKEX ESG Guide Aspects	Material Areas
B1 Employment	7. Talent attraction and retention
B2 Health and Safety	8. Employee welfare and working conditions
B3 Development and Training	9. Occupational health and safety
B4 Labor Standards	10. Learning and development
	11. Human rights

Operating Practices

HKEX ESG Guide Aspects	Material Areas
B5 Supply Chain Management	12. Supply chain and procurement
B6 Product Responsibility	13. Customer data privacy and security
	14. Responsible advertising
	15. Content dissemination to different audiences
	16. Reliable services and products
	17. Responsible network management
	18. Customer service and satisfaction
B7 Anti-corruption	19. Corporate governance
	20. Anti-corruption

Community

HKEX ESG Guide Aspects	Material Areas
B8 Community Investment	21. Community investment
	22. Technology and education initiatives
	23. Employee engagement in community

REPORTING ON ENVIRONMENTAL ASPECTS (ASPECTS A1-A3)

PCCW recognizes the importance of good environmental stewardship and is committed to protecting the environment. We integrate environmental considerations into our business processes and strive to continually improve our environmental performance in line with local regulations and industry-specific guidelines.

Reducing the energy consumption of our data centers, exchanges and equipment is a priority as they account for a significant proportion of our total carbon emissions. Our priority objectives include:

OBJECTIVES

- Reducing CO₂ emissions
- Achieving energy savings
- Reducing waste production

Measures

- Modernizing and optimizing network infrastructure, equipment and buildings
- Optimizing data centers and exchanges
- Reducing fuel consumption by optimizing our fleet

We have developed the following policies and procedures to help us meet our environmental objectives:

ENVIRONMENT-RELATED POLICIES and GUIDELINES

Energy and
Water
Management
Policy

Energy and
Water
Management
Guidelines

Gas Emissions
Reduction
Policy

Waste paper
recycling
procedures –
recycling
programs

Our CSR Committee oversees sustainability and environmental initiatives for employees. Our business units maintain environmental best practices across the Group. The Group Strategic Purchasing Team promotes similar practices throughout the supply chain through our Supplier Code of Conduct.

We also have an indirect impact on the environment through the services we provide to customers. We continuously explore opportunities to integrate environmental considerations into the development of our products and encourage our customers to save resources through initiatives such as e-bills and other digital services.

ASPECT A1: EMISSIONS

PCCW's approach to managing carbon emissions and other air emissions¹ mainly focuses on the efficient operation of data centers and exchanges. Other sources of emissions include our vehicle fleet and standby emergency generators. We are also working to reduce our emissions by improving energy efficiency and decreasing waste across our operations.

As stated in our CSR Policy and our Energy and Water Management Policy and Guidelines, we are committed to the following environmental objectives:

OBJECTIVES

- Ensure that resources are not wasted and that where practicable, materials and goods are reused and recycled
- Encourage suppliers of goods and services to observe PCCW's policies and best practices and to operate in an environmentally responsible manner

Measures

- Energy and Water Management Policy and Guidelines
- Supplier Code of Conduct
- Gas Emissions Reduction Policy
- Waste paper recycling procedures



We regularly measure CO₂ concentration levels and conduct air quality tests at our offices and major exchanges. We provide a comfortable working environment by regularly cleaning air-conditioning systems, carpets and upholstery.

Carbon Emissions² (Material Area 1)

Fleet

To reduce emissions from our vehicle fleet, we have replaced our vans with more efficient and environmentally friendly vehicles and have acquired two electric vehicles. We are also reducing overall fleet usage through our vehicle-sharing program.

Refrigerants

We comply with the Montreal Protocol, which requires the phasing out of ozone-depleting hydrochlorofluorocarbons (HCFCs) by January 2020. We have been replacing HCFCs-based air conditioning systems with those using water cooling and more environmentally friendly refrigerants (e.g. hydrofluorocarbons), which are also more energy efficient.

Standby Emergency Generators

Our generators are environmentally friendly in terms of noise levels, gas emissions, and smoke discharge. In the past years, we have worked to reduce carbon emissions by cutting the monthly generators' testing time.

Smart Charge

In partnership with CLP Holdings Limited, HKT formed an equal joint venture, Smart Charge (HK) Limited, in 2016. Smart Charge aims to help improve air quality in Hong Kong by providing charging solutions for electric vehicles.



¹ Other air emissions include emissions of sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO), and emissions of volatile organic compounds (VOC), excluding methane.

² For GHG emissions, please refer to the Energy (Material Area 4) section.

Waste Management (Material Area 2)

Our waste management strategy reflects the key principles of the “waste hierarchy” – reduce, reuse, recycle and replace. Our CSR Team maintains and reviews our recycling practices and programs, and assists business units to raise staff awareness of best practices for resource conservation.

Our incidental failure to make an application to the Director of Environmental Protection to establish a billing account for commencing a construction work was settled promptly with relevant fine payments.

Recycling programs

We have designed several recycling programs to reduce electronic and paper-based waste. We donate surplus resources such as outdated staff uniforms to charitable organizations. We also organize workshops and conservation days to promote greener-living concepts among our staff.



Computers and Commodities (e-waste) (Material Area 3)

To reduce e-waste, we reuse or recycle phones, set-top boxes and other products. We participate in green initiatives organized by the Government, including the Environmental Protection Department’s Wastewi\$e Label Scheme, under which we have achieved the “Good” Level.

Our mobile communications business has launched the “Help Yourself • Help the Needy • Help the Earth Handset Recycling Program”, which encourages mobile phone customers to donate their old handsets and accessories such as batteries and chargers at our shops. In 2016, more than 20,000 handsets were sent to NGOs and Government-endorsed contractors for distribution to the underprivileged or for responsible disposal as e-waste.

We were granted a “Save Resources Mission” Gold Award under the Green Missions program organized by Friends of the Earth (HK) for reducing our waste paper and printer cartridges waste.

Reducing Paper Consumption

Our efforts to reduce paper usage include implementing paperless e-Procurement and e-Payment systems. In 2016, we launched an e-Leave application system for all staff.

We encourage our customers to choose e-billing and make greater use of digital service applications. Around 90% of our NETVIGATOR broadband, mobile and Now TV customers have opted to receive their bills via e-mail and/or SMS. To support this progress, we extended e-billing to residential fixed-line customers in November 2016. In addition, our paperless initiatives at retail outlets include electronic product catalogs and tablet-based signing for sales and service contracts.

Hazardous Waste

Hazardous Waste is not a material area for PCCW. Nevertheless, we hired specialist contractors and licensed chemical waste collectors to handle the recycling and management of hazardous waste materials generated from electronic equipment as well as cooling and fire-fighting systems.



ASPECT A2: USE of RESOURCES

Energy (Material Area 4)

We have adopted various policies and guidelines to continually improve our energy efficiency and management. We aim to adopt best practices for energy conservation and support our business units with the implementation of effective energy conservation strategies. The Energy Management Manager of our Facilities Management Team is responsible for implementing new technologies and procedures to reduce electricity consumption.

Our exchanges, data centers, telecom/IT equipment, infrastructure and offices account for most of our energy consumption. We are committed to finding new ways to reduce energy consumption while improving the capacity and performance of our equipment and infrastructure to offer the best products and solutions to our customers.

Our recent efforts in this regard include:

- modernizing our telecom network facilities and air-conditioning systems
- introducing a next-generation telecom network to improve energy efficiency across our operations
- installing energy-efficient lighting and video-conferencing systems
- controlling optimal temperature settings for exchanges, offices and data centers
- providing signs to remind staff to save energy and live a low carbon life

In December, PCCW was awarded the CarbonCare® Action Label 2016 for implementing innovative carbon reduction solutions.

Having voluntarily joined the Environmental Protection Department's Carbon Footprint Repository for Listed Companies in Hong Kong in 2014, PCCW is one of the first movers to report carbon emissions data online. Since then, we have continued to voluntarily disclose our carbon footprint data.



Telecommunications Network and Equipment

We own and operate an extensive network of fixed-line and mobile telecommunications in Hong Kong.

HKT's 90 exchange buildings house the telecom equipment that enables us to exchange telecom and Internet traffic between HKT and other networks in Hong Kong and around the world.

Our ongoing efforts to modernize our voice network equipment can cut energy consumption of digital switches for fixed-lined voice services by 70%.

We are taking measures to enhance server efficiency and use, which will allow us to use fewer physical servers to store more data and reduce the demand for power.

Building Facilities

We review energy management issues on a bi-monthly basis and conduct monthly audits on our internal monitoring systems. We are continuing with plans to modernize and replace existing equipment and technologies with more energy-efficient, environmentally sensitive alternatives.

We also make use of automated building control systems that continually monitor and adjust climate controls and other facilities management systems to uphold good energy efficiency standards.



Our buildings account for a significant proportion of our energy consumption and CO₂ emissions. Steps to save energy, cut carbon emissions and reduce the life-cycle costs of our exchanges include replacing conventional air-conditioning cooling systems with water-cooled chillers.

In 2016, we replaced two of our existing chiller plants with water-cooled systems. It is estimated these efforts will achieve 30% energy saving.

Mobile Stations and Mobile Network

At the end of 2015, we completed the consolidation of the HKT and csl mobile radio cell sites. In 2016, we carried out a number of major engineering and IT (information technology) exercises for the full integration of the two core mobile networks. Through this integration project, we have achieved operational efficiency and energy saving by reducing a significant number of duplicated and ineffective sites, and

uplifting network performance. Environmental considerations have been taken into account throughout the design, construction, and operation phases. With the new mobile stations, we are also minimizing the use of air-conditioning systems, contributing to lower energy consumption and fewer CO₂ emissions to the environment.

Data Centers

We have achieved ISO 14001 for Environmental Management System (EMS) accreditation and a Leadership in Energy and Environmental Design (LEED) Platinum Certificate for our PCCW Solutions Data Centers (Powerb@se).

We have adopted “hot aisle/cold aisle” server rack layout design strategy for critical data centres whereby cooling efficiency can be optimized through separating cold air supply to server rack inlet and hot air ejected from servers.

Office Energy-savings Programs

We participated in the following energy-saving programs and initiatives in 2016:

Initiatives	Description
Green Missions	Received a Save Resources Mission Gold Award and a Save Energy Mission Bronze Award in the Green Missions program organized by Friends of the Earth (HK)
Earth Hour	Participated in WWF – Hong Kong’s Earth Hour campaign
Charter on External Lighting	Became a signatory to the Charter on External Lighting of the Environment Bureau

Green Purchasing

Our Energy and Water Management Guidelines support energy-efficient procurement procedures. Whenever possible, we encourage our employees to:

- take energy efficiency into consideration when purchasing supplies or reviewing suppliers of office equipment
- consider the energy cost of the operation of the product or equipment over the life of the product

Green ICT Solutions (Material Area 5)

We strive to support our customers in their efforts to adopt more environmentally friendly lifestyles and business practices.

Our business-to-business cloud solutions help our customers reduce their CO₂ emissions and resource consumption, which in turn achieve cost savings. PCCW Solutions’ Data Centers (Powerb@se) and our exchanges are designed and managed to be environmentally responsible. All power supplies, including backup generators, air-conditioning systems and

other E&M signaling services for our facilities adopt energy-saving and environmentally friendly technologies. The energy-efficient design of our data centers and exchanges also helps keep the power consumption as low as possible.

Our eSmartHealth provides a secure way for healthcare practitioners to efficiently manage patient records on a digital platform.

For our business-to-consumer products, our HKT Smart Living product provides all-in-one automated control of domestic electrical systems and appliances – including lighting, air-conditioning and curtains – via a smartphone or tablet interface. The Smart Living system can help users lower their electricity costs by becoming more efficient energy consumers.

HKT also offers Smart Charge electric vehicle charging solutions to meet the rising consumer demand. HKT strives to promote electric mobility and a cleaner environment for Hong Kong.



Water Management

Water management is not a material area for PCCW. Much of our water consumption is for basic cleaning and sanitation, as well as certain catering facilities in our buildings. Other usage includes the operation of cooling equipment and infrastructure across our data centers and exchanges. Our commitments, guidelines and principles are set out in our Energy and Water Management Policy.

Other raw materials

We have suppliers and contractors to manufacture our own products, and we work closely with such suppliers and contractors to ensure that the products and services we provide to our customers meet environmental standards.

Please refer to the Supply Chain and Procurement (Material Area 12) section for more details.

ASPECT A3: THE ENVIRONMENT and NATURAL RESOURCES

Employee Environmental Awareness (Material Area 6)

To help promote environmental awareness among our employees, our staff newsletter publishes a regular “Green Matters” column, which provides updates on various environmental issues and the Group’s latest environmental initiatives, as well as tips on how to “go green” at home. Employees are encouraged to comment and share their views on the content of the column and other environmental issues via a dedicated e-mail. Our CSR Team distributes “green labels” in our offices, through which colleagues are reminded to “recycle”, “save energy”, “save water” and “protect our natural environment”.

Memberships

Organizations	Memberships
Business Environment Council (BEC)	Council member and one of the founding members
Friends of the Earth (HK)	Cool Corporate Membership Scheme 2016-2017
The Green Earth	Green Earth Companion, Water Category 2016-2017
WWF – Hong Kong	Corporate Membership Program (CMP) – Silver Membership 2016/17

Green Volunteering

Our corporate Volunteer Team participated in environment-related programs in partnership with various charity and social services groups in 2016.

Organizations	Programs
Business Environment Council (BEC)	Involved in the BEC Biodiversity Ambassador Training Programme: Marine Biodiversity Conservation. We also supported a series of roving exhibition-cum-sharing sessions in the community to promote marine biodiversity conservation.
The Green Earth	Participated in clean-up services and tree planting at Clear Water Bay Country Park.
WWF – Hong Kong	Participated in weeding work at Mai Po Nature Reserve.



REPORTING ON SOCIAL ASPECTS

EMPLOYMENT AND LABOR PRACTICES (ASPECTS B1-B4)

PCCW employs over 25,000 employees, who are all key to maintaining our competitiveness and delivering the best services. We are committed to providing a rewarding work environment that encourages collaborations and offers our employees opportunities to learn, grow and succeed at work and in life. This commitment is incorporated into our Human Resources Policy Manual, CSR Policy and Employee Handbook.



OBJECTIVES

- To attract, develop, motivate and retain suitable talent to provide quality ICT services

Actions

- Fair compensation and working hours
- Career development and promotion opportunities
- Well-being initiatives

ASPECT B1: EMPLOYMENT

Talent Attraction and Retention (Material Area 7)

We provide employees with a nurturing environment, high levels of work variety and excellent career development opportunities, including skills development and leadership training, job rotation and secondment programs, and a "promotion from within" policy.

We have established a clear career progression structure under five tiers: 1) Associate and Operational Professional, 2) Managerial, 3) Senior Professional or Managerial, 4) Executive and 5) Senior Executive. Ongoing performance assessments and formal annual reviews ensure managers support employees in setting and achieving their career ambitions and professional goals. Our Performance and Development Review System helps employees grow their capabilities in line with their own career ambitions and the Group's business objectives.

We aim to attract, motivate and retain the best people for our business operations. To achieve this, we provide a market-competitive employment package consisting of monetary and non-monetary rewards for all our employees. Our comprehensive reward system offers discretionary incentive

bonus scheme, sales commission, share grants, group medical insurance protection, and retirement protection. We also operate on-site canteens at several locations, which provide staff with reasonably priced meals.

Employees who enjoy a good work-life balance are better equipped to achieve their best performance. We support our people in effectively managing their work and life commitments through initiatives such as marriage, compassionate and volunteer leave.

Employee Communication

Promoting a corporate culture of open communication is one of the keys to sustaining our market leadership. We encourage staff at all levels to express their views and make suggestions through a variety of channels, including face-to-face meetings and "town hall" style gatherings with management. Our Joint Staff Council provides staff and management with a platform for discussing important issues such as operational efficiency, career development and training, working conditions, pay and benefits, and the provision of social and recreational facilities. Our intranet and internal newsletters keep employees up to date with business developments across the Group.



Employee Welfare and Working Conditions (Material Area 8)

As part of providing an engaging and supportive working environment, we help our people pursue their personal interests and live a healthy and fulfilling life.

Our Sports and Recreation team organizes different social, sports and recreation activities, and our Sports and Interest Group oversees the running of 17 sports teams and four interest groups. Through strong teamwork and dedicated training, PCCW teams won more than 10 awards at various competitions organized by the Inter-Hong Games Association in 2016.

To build corporate pride and cohesion, we offer our employees special discounts on a wide range of our products and services.

Our Service Excellence Awards and Long Service Awards recognize outstanding employee contribution and the loyalty and commitment of our staff.

In June 2016, PCCW received the Duty of Care: Outstanding Employers in Hong Kong Award. Jointly organized by the International SOS Foundation and Employers' Federation of Hong Kong, the Duty of Care Award recognizes organizations and individuals who proactively aim to mitigate travel, health and security risks and who contribute to effectively protecting workers overseas.

Equal Opportunities, Diversity and Anti-discrimination

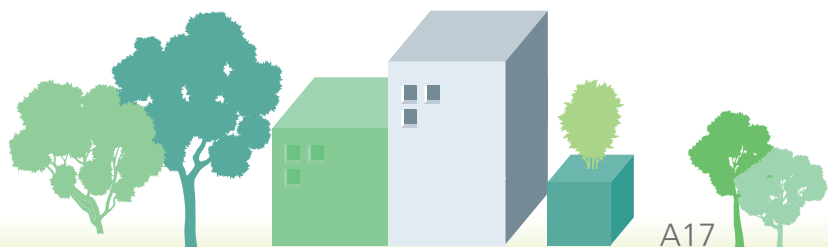
We are an equal opportunities employer. Our employment practices do not discriminate on grounds of gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation, national origin, trade union membership or other conditions recognized in law. Our CR Policy includes provisions that deal with discrimination, harassment and victimization in the workplace.

Working Hours and Rest Periods

As Hong Kong's leading ICT and media service provider, we work around the clock to offer top services to our customers. Many of our employees are therefore required to work unsociable hours and on public holidays, and be on standby duty for emergency call-outs. We provide overtime pay and additional compensation for any working time accrued outside regular working hours, or as defined in the employee's job description. PCCW complies with the Employment Ordinance and all other relevant Hong Kong employment laws and regulations that deal with working hours and rest periods.

Dismissal

For situations in which an employee has violated Group regulations, or whose performance is consistently below an acceptable level, a range of procedures to terminate their employment contract have been established. Terms and conditions for dismissal are outlined in our Human Resources Policy Manual. In all cases, managers consult the Human Resources Department to ensure that applicable legal requirements are observed.



ASPECT B2: HEALTH and SAFETY

Occupational Health and Safety (Material Area 9)

As a signatory of the Occupational Safety Charter of the Hong Kong Occupational Safety & Health Council, we are committed to maintaining a healthy and safe work environment and complying with all relevant laws and regulations.

Our strong health and safety performance is supported by our Safety Management System, which has been regularly audited and certified as Level Three on the Occupational Safety & Health Council's Continual Improvement Safety Program Recognition of System (CISPROS).

PCCW Safety Management Committee, as well as the Business Units Safety Management Committee and the OSH Unit jointly manage our Safety Management System.

PCCW Safety Management Committee

Our PCCW Safety Management Committee oversees our OSH performance and raises awareness of OSH



among all employees. The Committee coordinates regular health and safety training programs for staff across the Group. This training covers corporate-level safety planning, business unit safety planning, general and business unit-specific safe working procedures.

OSH Unit

The OSH Unit provides advice, information and training on OSH issues. It also conducts OSH inspections and fire drills, and is responsible for reviewing the job risk assessment report submitted by different units.

Line managers and designated staff members take part in a range of external OSH training programs, including:

- OSH ambassador training
- fire safety ambassador training
- first aid certification
- display screen equipment assessor training
- safety supervisor training
- construction green card training
- ladder assessor training
- accident investigation skills
- occupational safety management
- manual handling assessor training
- confined space (competent person) training
- confined space (certified worker) training
- Certificate of Competence in Workplace Noise Assessment
- internal safety auditor training



Apart from incidents resulting from (1) failure to ensure all illuminated exit signs bearing the word “EXIT”, and (2) failure to ensure all means of escape from the workplace were kept free from obstacles, for both of which we promptly settled with relevant fine payments, there were no further concluded cases of non-compliance issues related to staff health and safety.

Work Injury Care Program

We have a Work Injury Care Program, supported by a panel of Work Injury Care doctors for the purpose of conducting the initial medical examination, as well as the initial certification of sick leave required for recuperation.

A panel of medical service providers (general practitioners, specialists, physiotherapists, and occupational health therapists) will be appointed to provide ongoing treatment and rehabilitative support for the injured staff.

Employee well-being

To strengthen employees’ health awareness, we arrange monthly personal healthcare workshop for our colleagues and encourage them to engage in sports and recreational activities at our two staff sports centers. In 2016, we organized 25 health talks. To help staff maintain good psychological health, we operate an Employee Assistance Program that gives staff access to professional external counseling services.

We also recognize the importance of maintaining good personal financial health. In 2016, we organized two series of Workplace Financial Wellness workshops and one-on-one consultation sessions for pre-retirees in order to help them prepare for their retirement.

ASPECT B3: DEVELOPMENT and TRAINING

Learning and Development (Material Area 10)

We consider growth of our employees as the key to sustainable business growth. We continue to promote a learning culture and offer structured career development and training programs that ensure staff at all levels are well-equipped to excel at work and in life.

In 2016, we organized around 1,400 training programs and seminars covering various job-related hard and soft skills such as leadership, team building, language development and personal effectiveness.

To build talent and our leadership pipeline, we run a robust Graduate Trainee Program and a Future Leaders Development Program.



We also encourage our staff to attend external training programs to support career development where relevant. With prior approval from the Group, course and examination fees may be subsidized or reimbursed upon successful completion of programs leading to an academic qualification. We also provide a Training Record System for staff to track their internal and external training achievements.

ASPECT B4: LABOR STANDARDS

Human Rights (Material Area 11)

We are committed to protecting human rights. We comply with all relevant laws and regulations and have a zero-tolerance policy towards the use of forced labor and child labor in our business operations. With regard to third party suppliers, they are required to accept and observe our supplier contract terms and Supplier Code of Conduct, which outlines our zero tolerance stance on child and forced labor. We aim not to be directly or indirectly complicit in human rights

abuses and to ensure that all work that is performed on our behalf is in compliance with all relevant labor laws and regulations. These principles are reflected in our CSR Policy.

We strive to create an environment of respect, integrity and fairness for our employees and customers wherever we operate, and we expect our business partners to act in the same way.

OPERATING PRACTICES

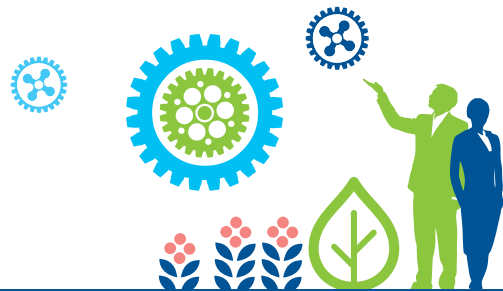
(ASPECTS B5-B7)

ASPECT B5: SUPPLY CHAIN MANAGEMENT

Supply Chain and Procurement (Material Area 12)

We maintain business relationships with over 2,000 suppliers that provide us with a wide variety of goods, equipment, materials and services. Our suppliers are required to act responsibly and adhere to our ESG standards. We also offer encouragement and support to our suppliers in improving their own sustainability performance. Building trusting

relationships with our suppliers helps us manage our potential environmental and social risk while enhancing the efficiency of our operations.



OBJECTIVES

- **Environmental and social risk management**

Measures

- **Group Purchasing Policy and Principles**
- **Supplier Code of Conduct**
- **Procurement contracts**

Our Group Purchasing Policy and Principles (GPPP) integrates social responsibility considerations into our purchasing decisions by promoting sound practices in our supply chain. The GPPP enhances communications with our suppliers regarding their compliance with our standards and applicable local regulations governing ethical behavior, employment practices, health and safety, and the environment.

We have a zero tolerance policy towards bribery and corruption. The standard of “no conflict of interest” is set out in our CR Policy and Bribery, Gifts and Entertainment Policy. If members of our staff have any concerns about conflict of interest, they should contact the line manager for clarification. Where a potential conflict of interest arises, they are requested to complete the form “Declaration of Conflict of Interest”, which is available on the intranet.

The Company passed annual ISO 9001 (2008 version) audit in 2016, which demonstrates our commitment to high standards of quality in procurement and supply chain management.

Supplier Assessment and Code of Conduct

In addition to assessing our suppliers on quality, cost, service and delivery, we also assess whether they display a strong commitment to upholding high standards of socially responsible behavior.

We have in place a Supplier Code of Conduct which outlines our expectations in areas such as:

- legal and regulatory compliance
- human rights of workers
- occupational health and safety
- environmental protection

Procurement Contracts

Our procurement contracts consist of provisions on environmental and social aspects, including:

- **CSR Policy**
 - o suppliers are made aware of our commitment to CSR and are encouraged to review our CSR Policy

- Environmental protection
 - o suppliers are required to conform in all respects with the provisions of all applicable environmental legislation, regulation or by-law, including obtaining all required environmental permits
 - o suppliers are asked to reduce the generation of waste and to dispose of all waste in an environmentally responsible manner
- Occupational safety and health
 - o suppliers are required to ensure the safety and health of all their employees and all other people at their workplace. They are asked to adhere to best safety practices and maintain a safe and hygienic working environment
 - o major service providers are asked to designate a registered safety officer to monitor safety and report work accidents to PCCW
- Conflict of interest
 - o suppliers must declare and notify PCCW in writing should they become aware that any PCCW employee has any financial or other interest in their company, either directly or through a family member
- Prevention of bribery
 - o suppliers must not offer or give any gift, payment, loan or other advantage to any member of PCCW staff

Supplier monitoring

Our Group Purchasing & Supply Team conducts a yearly supplier performance review, targeting our major suppliers and contractors. Any unsatisfactory ratings are communicated to the relevant supplier(s) for rectification or improvement. In 2016, our Supplier Code of Conduct was enhanced to ensure suppliers' commitment to CSR principles and appropriate supplier conduct, stipulating that our Group has the right to audit our suppliers on compliance and performance when appropriate.

ASPECT B6: PRODUCT RESPONSIBILITY

We are committed to offering an excellent customer experience and ensuring that our products and services are safe, user-friendly and environmentally sound. We adhere to applicable laws regulating health and safety standards (including those that relate to materials used in our products), as well as those governing testing, advertising and labeling. Our aim is for our customers to have confidence in our products and services, and sufficient information to make informed choices.

Customer Data Privacy and Security, Responsible Advertising (Material Areas 13 & 14)

We view data privacy and security as a key operating principle. We aim to comply with all relevant laws and regulations and have implemented a comprehensive range of information-privacy and data-security procedures to protect individual privacy, safeguard commercially sensitive information and control access to inappropriate content by underage users of our services. There was no known issue regarding material non-compliance with the relevant laws and regulations that would have any significant impact on the Group during the reporting period.

OBJECTIVES

- Protecting customer and employee data
- Ensuring and supporting the online safety of our customers

Measures

- Group Privacy Policy
- Privacy Policy Statement
- Personal Data (Privacy) Ordinance Compliance Guidelines
- Employee training
- Customer online safety guidelines and support
- Content Security Guidelines



We have established a robust governance structure that sits under the Group Legal Office and is led by the Privacy Compliance Officer. In addition, Data Protection Officers are appointed to ensure the Group's compliance with the Group Privacy Policy and Privacy Policy Statement as well as the Personal Data Privacy Ordinance (PDPO). Our employees receive regular training on data privacy-related issues.

Customer's consent must be obtained before we can use their personal data to deliver subscriber-related information, and customers can change their subscription and personal data use preferences at any time by sending a request to our Privacy Compliance Officer.

Our data security management system helps us assess risk and implement any necessary security measures. The IT Security Management Systems at our PCCW Solutions Internet Data Centers and IT Service Management Center are ISO 27001 certified.

Our storage of physical records containing personal data strictly follows the guidelines set out in the Document Retention Policy, Corporate Security Policy and Corporate Security Principles. Access to records and data without authorization is strictly prohibited. Staff access to personal customer data is granted strictly on a "need-to-know" basis. Any customer complaints received will be put on record by a responsible unit, and will be investigated following internal complaint management procedures. The Group will then respond to the complaining customer regarding our investigation findings.

Our NETVIGATOR broadband internet service provides customers with information and advice on identifying suspicious online content and activities through its "Safe Internet Tips" and "Customer News" channels.

Content Dissemination to Different Audiences (Material Area 15)

We have developed a comprehensive approach to protecting children and young people from unsuitable media content. Our Media Group respects all relevant legislation and laws, which include the Broadcasting Ordinance, license conditions and codes of practice issued by the Communications Authority. In 2016, the Media Group was not found to be in breach of the relevant regulatory requirements that result in punitive financial sanction.

As part of the corporate governance program, internal compliance guidelines and regular compliance trainings are made available to our staff in the relevant work areas including content production, advertising sales and engineering/technical operations. Internal content compliance vetting processes are also in place. We take public comments and complaints relating to content on our television broadcast services seriously. A comprehensive set of complaint procedures, which has been approved by the Communications Authority, has been implemented with a view to ensure that all collected comments and complaints from the public and the regulatory bodies are not only handled properly and effectively but also assessed for continual future service enhancement. We provide various channels to collect customers' comments and complaints – including hotlines, email as well postal addresses. Internally, proper record for all collected feedbacks is in place to ensure that they are registered, reviewed and responded to, where necessary after appropriate investigation or internal discussion. Externally, reports are duly submitted to fulfill relevant regulatory requirements. As a demonstration of our commitment to providing excellent customer service, we also published the relevant Code of Practice.

Other initiatives designed to protect under-18s include:

- providing age-appropriate content for children and young people. This includes our Junior App and Junior Pack, which offer kid-centric channels and on-demand programs
- using on-screen classification symbols and/or advisory messages to indicate programs that contain unsuitable content for children or are likely to upset particular groups or audiences



Reliable Services and Products, Responsible Network Management (Material Areas 16 & 17)

Providing reliable services and products, and responsible network management are our priority. As a leading ICT and media service provider in Hong Kong, we aim to provide telecom networks that meet the current and future needs of our customers. We achieve this by continuously improving the customer experience, relying in part on our well-developed customer relationship management system.

We have established a number of measures to help us deliver on our customer service objectives:



OBJECTIVES

- Reliable, quality services and products
- Continue increasing Fiber-To-The-Building coverage
- Continue increasing Fiber-To-The-Home coverage
- Extending fiber connectivity to schools
- Extending mobile coverage
- Target to attain highest speed in fixed broadband market

Measures

- Quality Management System (QMS)
- External certification
- Gigabit Passive Optical Network (GPON) standard
- Long-term Evolution (LTE) standard
- Migration from IPv4 to IPv6

We have designated teams looking after the development and management of various consumer products and services in the Group. To ensure product and service safety and reliability, and those of third party suppliers and manufacturers, our teams are involved in product reliability processes including meeting relevant ISO standards, obtaining corresponding certification, and meeting prescribed government/statutory body requirements.

Reliable Network

As part of our business continuity strategy, we review and test our IT systems and business processes at least once a year to ensure they can withstand severe interruptions and that we have adequate back-up procedures and recovery strategies in place.

Network Access and Responsible Expansion

In 2016, HKT extended its Fiber-To-The-Building coverage to 87.6% and Fiber-To-The-Home coverage to 83.5%. We also seek to continuously extend coverage in rural areas and outlying islands of Hong Kong. In 2016, HKT completed the integration of mobile networks into one new core network that offers customers a faster and more stable service and more extensive roaming coverage.

Through a network of more than 3,000 sites, we provide comprehensive mobile coverage in Hong Kong, including in all tunnels and railways, and have dedicated indoor and outdoor sites at major university campuses. In addition, HKT has provided fiber connectivity to over 400 schools in Hong Kong to support the deployment of high speed broadband and Wi-Fi in education.

Quality Management System

Our PCCW Solutions business ensures that our products and services consistently meet the needs of our enterprise customers. In accordance with ISO 9001 and ISO 20000 standards, PCCW Solutions has established a quality management system (QMS) which defines quality management mechanisms across all business processes, including customer service. Our QMS is governed by our Quality Policy and Quality Manual. The QMS is led by the Head of Delivery Excellence and composed of Quality Representatives from the Capability Management team.

Customer Service and Satisfaction (Material Area 18)



We value feedback from our customers and consider it an important learning opportunity for improving our services.

We have established a variety of channels to keep us in close contact with our retail customers and encourage them to share their views, including our Customer Service Centers and Integrated Customer Service Hotline, as well as customer satisfaction surveys. Senior management regularly review reports on customer suggestions, compliments and complaints.

Service Excellence Awards

To help drive our efforts to continuously upgrade our service, we have in place Service Excellence Awards (SEA). Launched in 2008, SEA is open to all staff, who may submit their own entries or be nominated by colleagues or supervisors on an individual or team basis.



Every quarter, up to 45 individuals and eight teams will be named as SEA winners and receive a cash prize. The 30 most meritorious individual awardees during the year will be further honored as annual winners at the end of the year.

Customer Experience Initiatives

We have launched various initiatives to help ensure customer satisfaction:

- An Integrated Customer Service Hotline is available for telecom service support
- The Mystery Shopper Program is an ongoing service performance benchmarking tool conducted in our retail shops. In an effort to constantly uplift our retail service standards, each retail location is audited at least twice a month. Over 500 Mystery Shopper visits take place annually across all our retail locations

- Customer service specialists at our customer service call centers invite customers to participate in a Customer Transaction Survey at the end of each call to help us evaluate our service quality and gain valuable customer feedback
- We have in place a Call Monitoring Program to assess the performance of our call center customer service specialists, who are also required to receive five to ten hours of call service training per month

In addition, we participate in the Customer Complaint Settlement Scheme (CCSS). Organized by the Communications Association of Hong Kong, the CCSS offers a non-judicial forum for resolving deadlocked disputes between customers and their telecommunications service providers.



ASPECT B7: ANTI-CORRUPTION

Corporate Governance and Anti-Corruption (Material Areas 19 & 20)

PCCW 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 our business.

OBJECTIVES

- Zero bribery
- Anti-corruption
- Anti-money laundering



Measures

- Compliance Manual
- Corporate Responsibility Policy
- Bribery, Gifts and Entertainment Policy
- Employee training

Our Compliance Manual and CR Policy require all directors, officers and employees of PCCW and its subsidiaries, affiliates and associated companies to observe high standards of ethical behavior.

We have a zero-tolerance policy regarding bribery and corruption in any form or at any level in association with any aspect of the Group's activities. Our Bribery, Gifts and Entertainment Policy prescribes the minimum set of rules to be adopted throughout our Company to prevent, identify and address any instances of alleged or actual bribery or corruption involving PCCW.

Our employees are regularly advised of relevant policies and guidelines, including any updates or revisions. The employee induction process for new hires includes extensive guidance on anti-corruption measures. In addition, all employees are required to annually confirm that they have read and understand our anti-corruption and bribery policies. When new laws and regulations that may impact the business are introduced, we provide training to relevant staff to ensure compliance.

In 2016, a subsidiary of HKT was granted a Stored Value Facilities license. It has committed significant resources towards complying with all relevant anti-money laundering rules and regulations which apply to such licensees.

Persons in violation of our company policies and/or applicable laws and regulations may be subject to disciplinary or administrative action as well as civil or criminal liability. Where instances of non-compliance are confirmed, staff may be terminated or further actions may be taken. In 2016, no legal cases concerned with corrupt practices were brought against PCCW or any of our subsidiaries or employees.

We have established effective procedures to ensure thorough investigation of all allegations of corruption – whether internal or involving third-party business partners. Instances of improper action are addressed internally unless such matters indicate criminal activity, in which case we will immediately notify appropriate law enforcement agencies.

We have established complaint channels through which employees and other parties can confidentially and/or anonymously report unethical and illegal behavior. We have adopted best practices with respect to whistle-blowing. Details of our whistle-blowing policy and procedures are published on our intranet and public website. All whistle-blowing reports are investigated to the fullest extent possible and reported to the Audit Committee.



COMMUNITY (ASPECT B8)

ASPECT B8: COMMUNITY INVESTMENT

Community Investment (Material Area 21)

We are committed to fostering positive relationships with the communities in which we operate, including by engaging in philanthropic and volunteer work to support their long-term development. By combining our resources and the passion of our Volunteer Team, we aim to address community concerns in collaboration with non-profit organizations, the government, private sector partners and academic institutions.

Our CSR Policy provides guidance to ensure that our colleagues make responsible decisions in relation to our community investment activities. Our key principles for community investment include:

- invest in community affairs and functions
- respect cultural and social differences
- ensure activities respect, promote and advance internationally recognized principles for community involvement
- have a positive impact on people, cultures and communities in which we operate
- be respectful of local and indigenous people, their values, traditions and culture
- ensure communities in which we operate are informed of and involved in organizational developments that affect them in a timely manner



Awards and Recognition

Organizations	Awards
Steering Committee on Promotion of Volunteer Service, Social Welfare Department	Award of 10,000 Hours for Volunteer Service, 2015 Gold Award for Volunteer Service (Organization), and Merit of Highest Service Hour Award 2015 (Private Organisations – Category 1)
Hong Kong Productivity Council	The 7th Hong Kong Outstanding Corporate Citizenship Bronze Award – Volunteer Team
The Hong Kong Council of Social Service	10 Years Plus Caring Company Logo
Community Investment and Inclusion Fund (CIIF) of Labour and Welfare Bureau	Social Capital Builder Logo Awards



Technology and Education Initiatives (Material Area 22)

As a leading ICT and media service provider in Hong Kong, we are committed to bridging the digital divide. Alongside continuing to invest in expanding our network expansion, we are supporting technology literacy initiatives and campaigns, and helping local communities enjoy easier access to ICT.

Enhancing ICT and digital literacy

We contribute our core expertise and knowledge of our employees to projects and programs aiming at enhancing ICT and digital literacy skills in the community. Our initiatives provide practical knowledge about how to use various technologies for children and young people, the elderly and individuals with disabilities.



Initiatives	Descriptions
IT Summer Camp 2016	We have been supporting the Shanghai-Hong Kong-Taiwan Youth IT Summer Camp for over 15 years for students from the three places. The camp is co-organized by the Hong Kong Computer Society, the Shanghai Computer Society and the Information Management Association in Taiwan.
Google's Empowering Young Entrepreneurs Program 2016	HKT is a corporate partner of Google's Empowering Young Entrepreneurs Program (EYE Program). The Program serves as a platform for entrepreneurs, corporations, business executives, governments and investors to work collaboratively to generate and implement innovative ideas that solve potential business challenges.
Girls Go Tech Program	We partnered with The Women's Foundation in Hong Kong to offer free workshops on computer coding and digital skills to girls from underprivileged families. The program aims to empower girls to pursue studies in the areas of science, technology, engineering and mathematics (STEM) to open up their career horizons and fulfil their academic and personal potential in an increasingly technology-driven world.
HKT Education	HKT Education helps overcome challenges in the learning and teaching process so that students, teachers, parents and society can fully benefit from the potential offered by eLearning. Through its STEM education scheme, HKT Education offers stable and advanced one-stop eLearning solutions that are supported by the reliable provision of high-speed broadband to schools, as well as cloud storage and Wi-Fi technologies. In partnership with Google and Apple, the HKT Education Professional Development Academy organizes different seminars and courses to train teachers on how to integrate technology into their teaching and optimize the efficiency of e-classrooms. To date, teachers from more than 150 primary and secondary schools have benefited from various Academy training courses and professional development events.



Employee Engagement in Community (Material Area 23)

We encourage employees to pursue their personal passions and dedicate their time and skills to supporting local communities. Our corporate Volunteer Team, which includes staff volunteers and members of their families, gives back to the community through a diverse range of social initiatives. Focusing particularly on the elderly, children and young people, individuals with disabilities and underprivileged families, the Volunteer Team ran 26 ongoing programs and 15 special programs in partnership with various NGOs, charitable organizations and social services groups in 2016. The Team also supported the “Share-to-Care” Volunteer Campaign, organized by the Agency for Volunteer Service, on International Volunteer Day.



Our Volunteer Appreciation Scheme grants up to two days of volunteer leave every year to eligible employees participating in community service initiatives.

2016 Community Service Highlights

Beneficiaries	Main Activities
The elderly	• Elderly Smartphone Workshops: Teaching elderly people how to use smartphones and common mobile applications. • Elderly Visits: Celebrating Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival by distributing care packs to the elderly. 
Children	• Financial Education Activity: Promoting good financial management concepts to kindergarten children via drama and role play in cooperation with the Mandatory Provident Fund Schemes Authority and Po Leung Kuk. • Kwong Wah Hospital's Play Activity Program: Organizing hospital visits for young patients. • Benji's Centre Walkathon: Assisting with the annual fundraising walkathon to help children with speech difficulties. • Junior Gateway Club: Providing ongoing services for children with autism in partnership with the Heep Hong Society. 



Beneficiaries	Main Activities
Students	• Life Buddies Mentoring Scheme: Promoting the development of good life skills among young people and helping them develop a positive vision for their future. Organized in collaboration with the Commission on Poverty. • Principal Chan Free Tutorial World: Providing free learning support and recording online teaching videos for students from underprivileged backgrounds. • Scholarships and Bursaries: Provided to undergraduates and postgraduates at several universities in Hong Kong. 
The youth	 • Better SHA Teen Mentorship Program: Volunteering as youth mentors in collaboration with Tung Wah Group of Hospitals Jockey Club Shatin Integrated Services Centre. • Love.Dream: Helping the youth set personal development goals as part of a three-year mentorship program organized by Tung Wah Group of Hospitals' Tuen Mun Integrated Services Centre.
People with disabilities	• Shared-Care Project: Providing activities to mentally disabled young people under a project organized by The Salvation Army Hong Kong. • IT Educational Programs: Providing IT support for long-term disabled patients at Cheshire Home (Shatin). 

Beneficiaries	Main Activities
Other groups	• Hope Development Accounts Program: Supporting Tung Wah Group of Hospitals' mentorship program for single mothers and underprivileged families in Yuen Long and Tin Shui Wai. • "Hong Kong Citizen, Hong Kong Heart" Volunteer Ambassador Program: Making do-it-yourself gifts to the community under a project organized by the Social Welfare Department. • Mobile Library Services Program: Providing mobile library services for cancer patients at Queen Elizabeth Hospital. 

Philanthropic Sponsorship

We provided funding and sponsorship for the following events and initiatives:

- HKT supported the annual Free Ride Day organized by the Hong Kong General Chamber of Commerce. About 300,000 citizens benefited from the free rides on trams and Star Ferry
- The 1010 sponsored event, "Concert in the Dark", organized by Dialogue Experience, which helped raise public awareness of the challenges of being visually impaired
- Supported Oxfam Trailwalker by providing communication systems support
- Sponsored the call-in hotlines for fundraising shows for Tung Wah Group of Hospitals, Po Leung Kuk, Pok Oi Hospital, Yan Oi Tong and Yan Chai Hospital
- Supported consultation services hotlines for The Samaritans and Hok Yau Club
- Provided telecommunications support for Cheshire Home (Shatin) and a paediatric ward at Princess Margaret Hospital



REFERENCES TO “HKEX ESG REPORTING GUIDE”

A. Environmental		PCCW's Comments
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	For more details, please refer to section: Reporting on Environmental Aspects> – Emissions
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	For more details, please refer to our CSR Policy and section: Reporting on Environmental Aspects> – Use of Resources
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimizing the issuer's significant impact on the environment and natural resources.	For more details, please refer to section: Reporting on Environmental Aspects> – The Environment and Natural Resources

B. Social		
Employment and Labor Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	For more details, please refer to section: Reporting on Social Aspects> Employment and Labor Practices – Employment
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	For more details, please refer to section: Reporting on Social Aspects> Employment and Labor Practices – Health and Safety

B. Social

Employment and Labor Practices

Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	For more details, please refer to section: Reporting on Social Aspects> Employment and Labor Practices – Development and Training
Aspect B4: Labor Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	For more details, please refer to section: Reporting on Social Aspects> Employment and Labor Practices – Labor Standards

Operating Practices

Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	For more details, please refer to our Supplier Code of Conduct and section: Reporting on Social Aspects> Operating Practices – Supply Chain Management
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	For more details, please refer to section: Reporting on Social Aspects> Operating Practices – Product Responsibility
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	For more details, please refer to section: Reporting on Social Aspects> Operating Practices – Anti-corruption

Community

Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	For more details, please refer to section: Reporting on Social Aspects> Community – Community Investment
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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
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