


**General Announcement::Announcement Relating to HKT Limited****Issuer & Securities**

|                         |   |
|-------------------------|---|
| <b>Issuer/ Manager</b>  | PACIFIC CENTURY REGIONAL DEVELOPMENTS LIMITED       |
| <b>Securities</b>       | PACIFIC CENTURY REGIONAL DEVTS - SG1J17886040 - P15 |
| <b>Stapled Security</b> | No  |

**Announcement Details**

|  |  |
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| <b>Announcement Title</b>  | General Announcement   |
| <b>Date &amp; Time of Broadcast</b>  | 06-Feb-2018 17:39:49   |
| <b>Status</b>  | New  |
| <b>Announcement Sub Title</b>  | Announcement Relating to HKT Limited   |
| <b>Announcement Reference</b>  | SG180206OTHRSPHY   |
| <b>Submitted By (Co./ Ind. Name)</b>   | Lim Beng Jin   |
| <b>Designation</b>   | Company Secretary  |
| <b>Effective Date and Time of the event</b>  | 06/02/2018 17:00:00  |
| <b>Description (Please provide a detailed description of the event in the box below)</b> | <p>The Board of Directors of Pacific Century Regional Developments Limited (the "Company") wishes to advise that HKT Management Limited (in its capacity as the trustee manager of the HKT Trust) and HKT Limited (a 51.97% subsidiary of the Company's 22.72% associated company, PCCW Limited ("PCCW")), which is listed on The Stock Exchange of Hong Kong Limited) have made an announcement in relation to the annual results of the HKT Trust and HKT Limited together with its subsidiaries for the year ended 31 December 2017.</p> <p>A copy of the HKT Trust and HKT Limited announcement is attached.</p> <p>By Order of the Board<br/>Lim Beng Jin<br/>Company Secretary<br/>6 February 2018</p> |
| <b>Attachments</b>   | <p> <a href="#">e_HKT_2017AR Ann.pdf</a></p> <p>Total size =453K</p>  |



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## **HKT Trust**

*(a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)*

and

## **HKT Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6823)**

# **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017**

The directors of HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) and HKT Limited (the “Company” or “HKT”) are pleased to announce the audited consolidated results of the HKT Trust and of the Company together with the Company’s subsidiaries (collectively the “Group”) for the year ended December 31, 2017.

- Total revenue (excluding Mobile handset sales) increased by 2% to HK\$30,898 million; Total revenue decreased by 2% to HK\$33,258 million
- Total EBITDA increased by 2% to HK\$12,997 million
- Profit attributable to holders of Share Stapled Units increased by 4% to HK\$5,097 million; basic earnings per Share Stapled Unit was 67.34 HK cents
- Adjusted funds flow for the year increased by 5% to HK\$4,912 million; adjusted funds flow per Share Stapled Unit was 64.87 HK cents
- Final distribution per Share Stapled Unit of 36.75 HK cents

## MANAGEMENT REVIEW

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

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

Total EBITDA for the year was HK\$12,997 million, an increase of 2% over the previous year, which was underpinned by operating efficiency improvements in both the Mobile and Telecommunications Services (“TSS”) businesses.

Profit attributable to holders of Share Stapled Units was HK\$5,097 million, an increase of 4% over the previous year. Basic earnings per Share Stapled Unit was 67.34 HK cents.

Adjusted funds flow for the year ended December 31, 2017 reached HK\$4,912 million, an increase of 5% over the previous year. Adjusted funds flow per Share Stapled Unit<sup>3</sup> was 64.87 HK cents, rising also by 5% over the previous year.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 36.75 HK cents per Share Stapled Unit for the year ended December 31, 2017. This brings the 2017 full-year distribution to 64.87 HK cents per Share Stapled Unit (comprising 28.12 HK cents as interim and 36.75 HK cents as final distribution) representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

## OUTLOOK

HKT has in the past year clearly demonstrated its operational resilience and ability to fend off aggressive price competition. While we will continue to be competitive on price, we will continue to innovate and provide the best customer experience, which we believe is the only key to sustainable business growth.

In particular, we will further develop our fiber network advantages for customer acquisition and upgrades, and offer mobile communications services, deployed on our fiber backbone, that are second to none. We will continue to groom our new businesses such as mobile payment for more organic growth of the Company in the future.

We are cognizant that the telecom market is likely to see further bouts of competitive behavior. As the leading operator in Hong Kong, and with a team dedicated to delivering the best products and services, we are confident that HKT will continue to be regarded by consumers and businesses as their most trustworthy telecom partner and we will continue to provide competitive services on a value-for-money basis.

## FINANCIAL REVIEW BY SEGMENT

| For the year ended December 31,<br>HK\$ million   | 2016           |                |                 | 2017           |                |                 | Better/<br>(Worse) |
|---|----------------|----------------|-----------------|----------------|----------------|-----------------|--------------------|
|   | H1             | H2             | Full<br>Year    | H1             | H2             | Full<br>Year    | y-o-y              |
| <b>Revenue</b>  |                |                |                 |                |                |                 |                    |
| TSS   | 10,308         | 11,106         | <b>21,414</b>   | 10,324         | 11,517         | <b>21,841</b>   | 2%                 |
| Mobile  | 6,335          | 6,728          | <b>13,063</b>   | 5,614          | 6,404          | <b>12,018</b>   | (8)%               |
| - Mobile Services   | 4,558          | 5,080          | <b>9,638</b>    | 4,587          | 5,071          | <b>9,658</b>    | —                  |
| - Handset Sales   | 1,777          | 1,648          | <b>3,425</b>    | 1,027          | 1,333          | <b>2,360</b>    | (31)%              |
| Other Businesses  | 118            | 119            | <b>237</b>      | 125            | 124            | <b>249</b>      | 5%                 |
| Eliminations  | (373)          | (494)          | <b>(867)</b>    | (414)          | (436)          | <b>(850)</b>    | 2%                 |
| <b>Total revenue</b>  | <b>16,388</b>  | <b>17,459</b>  | <b>33,847</b>   | <b>15,649</b>  | <b>17,609</b>  | <b>33,258</b>   | (2)%               |
| <b>Cost of sales</b>  | <b>(6,973)</b> | <b>(7,472)</b> | <b>(14,445)</b> | <b>(6,508)</b> | <b>(7,653)</b> | <b>(14,161)</b> | 2%                 |
| <b>Gross Margin</b>   | <b>57%</b>     | <b>57%</b>     | <b>57%</b>      | <b>58%</b>     | <b>57%</b>     | <b>57%</b>      |                    |
| <b>Operating costs before depreciation,<br/>amortization, and gain/(loss) on<br/>disposal of property, plant and<br/>equipment and intangible assets, net</b> | <b>(3,550)</b> | <b>(3,168)</b> | <b>(6,718)</b>  | <b>(3,173)</b> | <b>(2,927)</b> | <b>(6,100)</b>  | 9%                 |
| <b>EBITDA<sup>1</sup></b>   |                |                |                 |                |                |                 |                    |
| TSS   | 3,681          | 3,990          | <b>7,671</b>    | 3,720          | 4,096          | <b>7,816</b>    | 2%                 |
| Mobile  | 2,439          | 3,074          | <b>5,513</b>    | 2,504          | 3,253          | <b>5,757</b>    | 4%                 |
| - Mobile Services   | 2,425          | 3,014          | <b>5,439</b>    | 2,485          | 3,203          | <b>5,688</b>    | 5%                 |
| - Handset Sales   | 14             | 60             | <b>74</b>       | 19             | 50             | <b>69</b>       | (7)%               |
| Other Businesses  | (255)          | (245)          | <b>(500)</b>    | (256)          | (320)          | <b>(576)</b>    | (15)%              |
| <b>Total EBITDA<sup>1</sup></b>   | <b>5,865</b>   | <b>6,819</b>   | <b>12,684</b>   | <b>5,968</b>   | <b>7,029</b>   | <b>12,997</b>   | 2%                 |
| <b>TSS EBITDA<sup>1</sup> Margin</b>  | <b>36%</b>     | <b>36%</b>     | <b>36%</b>      | <b>36%</b>     | <b>36%</b>     | <b>36%</b>      |                    |
| <b>Mobile EBITDA<sup>1</sup> Margin</b>   | <b>39%</b>     | <b>46%</b>     | <b>42%</b>      | <b>45%</b>     | <b>51%</b>     | <b>48%</b>      |                    |
| - Mobile Services EBITDA <sup>1</sup> Margin  | <b>53%</b>     | <b>59%</b>     | <b>56%</b>      | <b>54%</b>     | <b>63%</b>     | <b>59%</b>      |                    |
| - Handset Sales EBITDA <sup>1</sup> Margin  | <b>1%</b>      | <b>4%</b>      | <b>2%</b>       | <b>2%</b>      | <b>4%</b>      | <b>3%</b>       |                    |
| <b>Total EBITDA<sup>1</sup> Margin</b>  | <b>36%</b>     | <b>39%</b>     | <b>37%</b>      | <b>38%</b>     | <b>40%</b>     | <b>39%</b>      |                    |
| Depreciation and amortization   | (2,827)        | (2,981)        | <b>(5,808)</b>  | (2,838)        | (2,847)        | <b>(5,685)</b>  | 2%                 |
| Gain/(loss) on disposal of property,<br>plant and equipment and intangible<br>assets, net   | 2              | 1              | <b>3</b>        | (1)            | —              | <b>(1)</b>      | NA                 |
| Other gains/(losses), net   | 9              | (60)           | <b>(51)</b>     | (2)            | (143)          | <b>(145)</b>    | (184)%             |
| Finance costs, net  | (483)          | (624)          | <b>(1,107)</b>  | (522)          | (554)          | <b>(1,076)</b>  | 3%                 |
| Share of results of associates and joint<br>ventures  | (8)            | (15)           | <b>(23)</b>     | 7              | (17)           | <b>(10)</b>     | 57%                |
| <b>Profit before income tax</b>   | <b>2,558</b>   | <b>3,140</b>   | <b>5,698</b>    | <b>2,612</b>   | <b>3,468</b>   | <b>6,080</b>    | 7%                 |

## ADJUSTED FUNDS FLOW

| For the year ended December 31,<br>HK\$ million   | 2016    |         |                | 2017    |         |                | Better/<br>(Worse)<br>y-o-y |
|---|---------|---------|----------------|---------|---------|----------------|-----------------------------|
|   | H1      | H2      | Full<br>Year   | H1      | H2      | Full<br>Year   |                             |
| <b>Total EBITDA<sup>1</sup></b>   | 5,865   | 6,819   | <b>12,684</b>  | 5,968   | 7,029   | <b>12,997</b>  | 2%                          |
| Less cash outflows in respect of:   |         |         |                |         |         |                |                             |
| Customer acquisition costs and<br>licence fees  | (1,381) | (2,078) | <b>(3,459)</b> | (1,510) | (2,200) | <b>(3,710)</b> | (7)%                        |
| Capital expenditures <sup>6</sup>   | (1,472) | (1,363) | <b>(2,835)</b> | (1,302) | (1,300) | <b>(2,602)</b> | 8%                          |
| <b>Adjusted funds flow before tax<br/>paid, net finance costs paid and<br/>changes in working capital</b> | 3,012   | 3,378   | <b>6,390</b>   | 3,156   | 3,529   | <b>6,685</b>   | 5%                          |
| Adjusted for:   |         |         |                |         |         |                |                             |
| Tax payment   | (81)    | (470)   | <b>(551)</b>   | (141)   | (570)   | <b>(711)</b>   | (29)%                       |
| Net finance costs paid  | (414)   | (370)   | <b>(784)</b>   | (418)   | (412)   | <b>(830)</b>   | (6)%                        |
| Changes in working capital  | (466)   | 94      | <b>(372)</b>   | (468)   | 236     | <b>(232)</b>   | 38%                         |
| <b>Adjusted funds flow<sup>2</sup></b>  | 2,051   | 2,632   | <b>4,683</b>   | 2,129   | 2,783   | <b>4,912</b>   | 5%                          |
| <b>Annual adjusted funds flow per<br/>Share Stapled Unit (HK cents)<sup>3</sup></b>                       |         |         | <b>61.85</b>   |         |         | <b>64.87</b>   |                             |

## KEY OPERATING DRIVERS<sup>4</sup>

|   | 2016  |       | 2017  |       | Better/<br>(Worse)<br>y-o-y |
|---|-------|-------|-------|-------|-----------------------------|
|   | H1    | H2    | H1    | H2    |                             |
| Exchange lines in service ('000)  | 2,650 | 2,648 | 2,645 | 2,638 | —                           |
| Business lines ('000)   | 1,249 | 1,250 | 1,250 | 1,249 | —                           |
| Residential lines ('000)  | 1,401 | 1,398 | 1,395 | 1,389 | (1)%                        |
| Total broadband access lines ('000)<br>(Consumer, business and wholesale) | 1,569 | 1,567 | 1,572 | 1,591 | 2%                          |
| Retail consumer broadband access lines ('000)                             | 1,405 | 1,401 | 1,407 | 1,423 | 2%                          |
| Retail business broadband access lines ('000)                             | 144   | 148   | 149   | 154   | 4%                          |
| Traditional data (Exit Gbps)  | 4,378 | 5,171 | 6,552 | 7,121 | 38%                         |
| Retail IDD minutes (million minutes)                                      | 283   | 249   | 217   | 199   | (22)%                       |
| Mobile subscribers ('000)   | 4,445 | 4,512 | 4,218 | 4,407 | (2)%                        |
| Post-paid subscribers ('000)  | 3,106 | 3,130 | 3,168 | 3,217 | 3%                          |
| Prepaid subscribers ('000)  | 1,339 | 1,382 | 1,050 | 1,190 | (14)%                       |

- 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, 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 ("HKFRSs") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*
- Note 2 Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. The Group's adjusted funds flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.*
- Note 3 Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.*
- Note 4 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*
- Note 5 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*
- Note 6 Group capital expenditures represent additions to property, plant and equipment and interests in leasehold land.*

## Telecommunications Services

| For the year ended December 31,<br>HK\$ million         | 2016    |         |                | 2017    |         |                 | Better/<br>(Worse)<br>y-o-y |
|---|---------|---------|----------------|---------|---------|-----------------|-----------------------------|
|   | H1      | H2      | Full<br>Year   | H1      | H2      | Full<br>Year    |                             |
| <b>TSS Revenue</b>                                      |         |         |                |         |         |                 |                             |
| Local Telephony Services                                | 1,688   | 1,772   | <b>3,460</b>   | 1,665   | 1,729   | <b>3,394</b>    | (2)%                        |
| Local Data Services                                     | 3,478   | 3,763   | <b>7,241</b>   | 3,539   | 3,990   | <b>7,529</b>    | 4%                          |
| International Telecommunications Services               | 3,612   | 3,772   | <b>7,384</b>   | 3,555   | 3,827   | <b>7,382</b>    | —                           |
| Other Services  | 1,530   | 1,799   | <b>3,329</b>   | 1,565   | 1,971   | <b>3,536</b>    | 6%                          |
| <b>Total TSS Revenue</b>                                | 10,308  | 11,106  | <b>21,414</b>  | 10,324  | 11,517  | <b>21,841</b>   | 2%                          |
| Cost of sales   | (4,713) | (5,170) | <b>(9,883)</b> | (4,904) | (5,669) | <b>(10,573)</b> | (7)%                        |
| Operating costs before depreciation and<br>amortization | (1,914) | (1,946) | <b>(3,860)</b> | (1,700) | (1,752) | <b>(3,452)</b>  | 11%                         |
| <b>Total TSS EBITDA<sup>1</sup></b>                     | 3,681   | 3,990   | <b>7,671</b>   | 3,720   | 4,096   | <b>7,816</b>    | 2%                          |
| <b>TSS EBITDA<sup>1</sup> margin</b>                    | 36%     | 36%     | <b>36%</b>     | 36%     | 36%     | <b>36%</b>      |                             |

TSS revenue for the year ended December 31, 2017 increased by 2% to HK\$21,841 million, and EBITDA for the year also increased by 2% to HK\$7,816 million, yielding a stable EBITDA margin of 36%.

*Local Telephony Services.* Local telephony services revenue was HK\$3,394 million for the year ended December 31, 2017, as compared to HK\$3,460 million a year earlier, reflecting the continued gradual decline in local fixed lines in service. Total fixed lines in service at the end of December 2017 were 2.638 million, as compared to 2.648 million a year ago.

*Local Data Services.* Local data services revenue, comprising broadband network revenue and local data revenue, increased by 4% to HK\$7,529 million for the year ended December 31, 2017. The broadband network business delivered further revenue growth of 3% in 2017 despite prevailing price focused competition. The growth in revenue was supported by a healthy number of net broadband customer additions and continued subscriptions and upgrades on our leading fiber-to-the-home (“FTTH”) service.

The total number of broadband access lines at the end of December 2017 grew by 2% to 1.591 million from 1.567 million as at the end of December 2016. Of these broadband access lines, there were 698,000 FTTH access lines which represented a net increase of 82,000 or 13% from a year earlier. During the year, HKT launched its innovative Multi-Use Broadband Service which we believe will drive further subscriptions and upgrades to the FTTH service.

As the leading services provider to the enterprise segment, our local data revenue increased by 6% during the year benefitting from the healthy enterprise demand for cross-border connectivity solutions and network facility management solutions integrating connectivity, cloud-based applications and ancillary co-location services.

## **Telecommunications Services (Continued)**

*International Telecommunications Services.* International telecommunications services revenue for the year ended December 31, 2017 held steady at HK\$7,382 million, as compared to HK\$7,384 million a year earlier. Supported by the expanding reach of our global infrastructure, the international business is in the process of transforming to a comprehensive solutions provider to enterprise customers that integrates data connectivity and value added services such as unified communications and managed security under a simple self-ordering and auto-provisioning process, in order to offset the anticipated decline in the traditional wholesale voice business.

*Other Services.* Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment (“CPE”), provision of technical and maintenance subcontracting services and contact centre services (“Teleservices”). Other services revenue for the year ended December 31, 2017 increased by 6% to HK\$3,536 million primarily due to increased sales of network equipment arising from the joint collaboration between HKT and PCCW Solutions to deliver network and infrastructure solutions to their enterprise customers. The increase was partially offset by the revenue slowdown in the Teleservices business due to temporary capacity rationalization in the mainland China contact centre market.



## Mobile

| For the year ended December 31,<br>HK\$ million  | 2016         |              |               | 2017         |              |               | Better/<br>(Worse) |
|--|--------------|--------------|---------------|--------------|--------------|---------------|--------------------|
|  | H1           | H2           | Full<br>Year  | H1           | H2           | Full<br>Year  | y-o-y              |
| <b>Mobile Revenue</b>                            |              |              |               |              |              |               |                    |
| Mobile Services                                  | 4,558        | 5,080        | <b>9,638</b>  | 4,587        | 5,071        | <b>9,658</b>  | —                  |
| Handset Sales                                    | 1,777        | 1,648        | <b>3,425</b>  | 1,027        | 1,333        | <b>2,360</b>  | (31)%              |
| <b>Total Mobile Revenue</b>                      | <b>6,335</b> | <b>6,728</b> | <b>13,063</b> | <b>5,614</b> | <b>6,404</b> | <b>12,018</b> | (8)%               |
| <b>Mobile EBITDA<sup>1</sup></b>                 |              |              |               |              |              |               |                    |
| Mobile Services                                  | 2,425        | 3,014        | <b>5,439</b>  | 2,485        | 3,203        | <b>5,688</b>  | 5%                 |
| Handset Sales                                    | 14           | 60           | <b>74</b>     | 19           | 50           | <b>69</b>     | (7)%               |
| <b>Total Mobile EBITDA<sup>1</sup></b>           | <b>2,439</b> | <b>3,074</b> | <b>5,513</b>  | <b>2,504</b> | <b>3,253</b> | <b>5,757</b>  | 4%                 |
| <b>Mobile EBITDA<sup>1</sup> margin</b>          | <b>39%</b>   | <b>46%</b>   | <b>42%</b>    | <b>45%</b>   | <b>51%</b>   | <b>48%</b>    |                    |
| <i>Mobile Services EBITDA<sup>1</sup> margin</i> | <i>53%</i>   | <i>59%</i>   | <i>56%</i>    | <i>54%</i>   | <i>63%</i>   | <i>59%</i>    |                    |
| <i>Handset Sales EBITDA<sup>1</sup> margin</i>   | <i>1%</i>    | <i>4%</i>    | <i>2%</i>     | <i>2%</i>    | <i>4%</i>    | <i>3%</i>     |                    |

Mobile services revenue for the year ended December 31, 2017 improved slightly to HK\$9,658 million, from HK\$9,638 million a year earlier. During the year, Mobile services revenue benefited from continued growth in the post-paid customer base, customers upgrading to our premium 1010 service, as well as demand for greater mobile data. However, such growth was moderated by the continued decline in IDD and roaming revenue and severe price discounting in the market. For the year ended December 31, 2017, IDD and roaming revenue accounted for 13% of Mobile services revenue, as compared to 14% a year earlier.

As such, the post-paid exit average revenue per user (“ARPU”) as at the end of December 2017 held firm at HK\$232, as compared to HK\$233 a year earlier.

As at December 31, 2017, the Mobile business had 3.217 million post-paid customers, an increase of 3% from a year earlier. The churn rate for post-paid customers also improved to 1.1% in 2017 from 1.3% a year earlier, reflecting the advantages of our multi-brand strategy, network supremacy and innovative service offerings such as The Club program.

During the year, the Mobile business witnessed an increase in the proportion of handset bundled plan subscriptions as customers took up our attractive offerings, which not only reduced the churn but also helped lift new customer acquisitions. The related customer acquisition and retention costs for the year were therefore higher.

Revenue from handset sales of HK\$2,360 million was recorded during the year, as compared to HK\$3,425 million a year earlier. This 31% decline reflects the continued elongation of the replacement cycle for mobile handsets.

Total Mobile EBITDA for the year increased by 4% to HK\$5,757 million, with the margin improving to 48% from 42% a year earlier partly due to a less significant dilution impact on the reduced contribution of handset sales revenue. More importantly, EBITDA for Mobile services increased by 5% to HK\$5,688 million, with the margin improving to 59% from 56% a year earlier due to the full year impact of the cost synergies from the integration of CSL Holdings Limited (“CSL”) which was completed in 2016, in particular savings from cell site rental, third-party backhaul and call centre integration, as well as additional operational efficiencies achieved during the year.

## **Other Businesses**

Other Businesses primarily comprises new business areas such as the Tap & Go mobile payment service and The Club program, and corporate support functions. Revenue from Other Businesses was HK\$249 million for the year ended December 31, 2017, as compared to HK\$237 million a year ago. As at December 31, 2017, The Club program had approximately 2.303 million activated members.

## **Eliminations**

Eliminations were HK\$850 million for the year ended December 31, 2017, as compared to HK\$867 million a year ago. This reflects the continued collaboration amongst HKT's various business segments to take advantage of our capabilities in offering integrated products and services to retail and enterprise customers.

## **Cost of Sales**

Cost of sales for the year ended December 31, 2017 decreased by 2% to HK\$14,161 million, reflecting lower Mobile handset sales during the year. Gross margin was steady at 57% during the year.

## **General and Administrative Expenses**

For the year ended December 31, 2017, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and intangible assets, net, ("operating costs") improved by 9% to HK\$6,100 million as a result of the full year impact of the cost synergies from the CSL integration and sustained improvements in operating efficiencies in both the TSS and Mobile segments. Cost savings were successfully achieved in areas such as cell site rental, third-party backhaul, call centre integration, and publicity and promotion. Consequently, the operating costs to Mobile services revenue ratio for the Mobile business improved to 23.9% from 26.6% a year ago, while the operating costs to revenue ratio for the TSS business improved to 15.8% from 18.0% a year ago. Overall operating costs to revenue ratio, therefore, improved to 18.3% from 19.8% a year ago.

Depreciation expenses decreased by 4% as a result of the Group's periodic review of the useful lives of network assets, and amortization expenses also decreased by 2% as certain intangible assets arising from the CSL acquisition were fully amortized during the year. As a result, total depreciation and amortization expenses decreased by 2% to HK\$5,685 million for the year ended December 31, 2017.

General and administrative expenses, therefore, decreased by 6% to HK\$11,786 million for the year ended December 31, 2017.

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

As a result of the resilient performance in the TSS and Mobile businesses and the achievement of sustained operating efficiencies, overall EBITDA increased by 2% to HK\$12,997 million for the year ended December 31, 2017. The EBITDA margin improved to 39% from 37% a year ago.

## **Finance Costs, Net**

Net finance costs for the year ended December 31, 2017 decreased by 3% to HK\$1,076 million from HK\$1,107 million a year ago, reflecting the recognition of certain hedging gains during the year which were partially offset by an increase in finance costs as a result of the increase in gross debt.

The average cost of debt increased to 2.6% during the year, as compared to 2.5% a year ago as a result of the increased proportion of fixed rated borrowings.

## **Income Tax**

Income tax expense for the year ended December 31, 2017 was HK\$971 million, as compared to HK\$771 million a year ago, representing an effective tax rate of 16.0% for the year versus an effective tax rate of 13.5% a year ago. The increase in the income tax expense is due to the increase in taxable profits, the full utilization of the tax loss of a company in 2016 resulting from the CSL integration and a one-time non-cash charge due to a reassessment of deferred income tax assets associated with the enactment of the 2017 tax reform legislation in the United States.

## **Non-controlling Interests**

Non-controlling interests of HK\$12 million (2016: HK\$38 million) primarily comprised the net profit attributable to the minority shareholders of Sun Mobile Limited.

## **Profit Attributable to Holders of Share Stapled Units/Shares of the Company**

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 increased by 4% to HK\$5,097 million (2016: HK\$4,889 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.

HKT's gross debt<sup>5</sup> was HK\$39,338 million as at December 31, 2017 (December 31, 2016: HK\$38,798 million). Cash and short-term deposits totaled HK\$3,667 million as at December 31, 2017 (December 31, 2016: HK\$3,332 million). HKT's gross debt<sup>5</sup> to total assets was 41% as at December 31, 2017 (December 31, 2016: 42%).

As at December 31, 2017, HKT had ample liquidity as evidenced by committed banking facilities totaling HK\$27,381 million, of which HK\$5,698 million remained undrawn.

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

As at December 31, 2017, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

## **CAPITAL EXPENDITURE<sup>6</sup>**

Capital expenditure including capitalized interest for the year ended December 31, 2017 was HK\$2,655 million (2016: HK\$2,878 million). Capital expenditure relative to revenue was 8.0% for the year ended December 31, 2017 (2016: 8.5%). Capital expenditures for the Mobile segment declined following the completion of the CSL integration in 2016, while capital expenditure for the TSS segment grew to meet the continued demand for fiber broadband connectivity and Internet of Things (“IoT”) related services, customized solutions for enterprises and continued submarine cable investments.

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

## **HEDGING**

Market risk arises from foreign currency and interest rate exposure related to investments and borrowings. As a matter of policy, HKT continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, 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 policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

More than three quarters of HKT’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 HKT’s debt is denominated in foreign currencies including United States dollars. Accordingly, HKT has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2017, all forward and swap contracts were designated as cash flow hedges for the related borrowings of the Company.

As a result, HKT’s operational and financial risks are considered minimal.

## **CHARGE ON ASSETS**

As at December 31, 2017, no assets of the Group (2016: nil) were pledged to secure loans and banking facilities of HKT.

## CONTINGENT LIABILITIES

| As at December 31,<br>HK\$ million | 2016       | 2017       |
|------------------------------------|------------|------------|
| Performance guarantees             | 513        | 237        |
| Others                             | 57         | 64         |
|                                    | <b>570</b> | <b>301</b> |

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

## HUMAN RESOURCES

HKT had over 17,600 employees as at December 31, 2017 (2016: 18,900) located in 43 countries and cities. About 62% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

## FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 36.75 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2017 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 36.75 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 28.12 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2017 was paid to holders of Share Stapled Units/shareholder of the Company in September 2017.

The board of directors of the Trustee-Manager has confirmed, in accordance with the Trust Deed, that (i) the auditor of the Group has performed limited assurance procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants to review and verify the Trustee-Manager's calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unitholders of the HKT Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the HKT Trust as they fall due.

## **CLOSURE OF BOOKS**

The record date for the proposed final distribution will be Thursday, May 17, 2018. The register of registered holders of Share Stapled Units, the register of holders of units, the principal and Hong Kong branch registers of members of the Company and the register of beneficial interests as maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Wednesday, May 16, 2018 to Thursday, May 17, 2018 (both days inclusive), in order to determine entitlements to the proposed final distribution. During such period, no transfer of Share Stapled Units will be effected. In order to qualify for the proposed final distribution, all transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (the "Share Stapled Units Registrar"), for registration no later than 4:30 p.m. on Tuesday, May 15, 2018. Subject to the approval of holders of Share Stapled Units at the AGM, distribution warrants will be despatched to holders of Share Stapled Units on or around Thursday, May 31, 2018.

## **RECORD DATE FOR DETERMINING ELIGIBILITY TO ATTEND AND VOTE AT THE AGM**

The record date for determining the entitlement of the holders of Share Stapled Units to attend and vote at the AGM, which is to be held on Thursday, May 10, 2018, will be Friday, May 4, 2018. All transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units must be lodged with the Share Stapled Units Registrar for registration no later than 4:30 p.m. on Friday, May 4, 2018.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Under the Trust Deed and for so long as the Trust Deed remains in effect, the Share Stapled Units cannot be repurchased or redeemed by the HKT Trust and the Company unless and until specific regulations which expressly permit repurchase or redemption are introduced by the Securities and Futures Commission. Therefore, the holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units, and the HKT Trust and the Company are not allowed to repurchase their own Share Stapled Units.

During the year ended December 31, 2017, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

## **AUDIT COMMITTEE**

The Trustee-Manager's Audit Committee and the Company's Audit Committee have reviewed the accounting policies adopted by the Group and the Trustee-Manager, the audited consolidated financial statements of the HKT Trust and HKT Limited for the year ended December 31, 2017 and the audited financial statements of the Trustee-Manager for the same period.

## **CORPORATE GOVERNANCE CODE**

The HKT Trust, the Trustee-Manager and the Company are 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 their businesses, and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

The HKT Trust and the Company have applied the principles, and complied with all relevant code provisions of the Corporate Governance Code (the “CG Code”) in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended December 31, 2017, save and except for the code provisions set out below. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the code provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by code provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the websites of the Company ([www.hkt.com/ir](http://www.hkt.com/ir)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2017 annual report will be despatched to holders of Share Stapled Units and available on the above websites in due course.

By order of the boards of  
**HKT Management Limited**  
and  
**HKT Limited**  
**Bernadette M. Lomas**  
*Group General Counsel and Company Secretary*

Hong Kong, February 6, 2018

**AUDITED CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED**

For the year ended December 31, 2017

(In HK\$ million except for earnings per Share Stapled Unit/share of the Company)

|  | Note(s) | 2016               | 2017                      |
|--|---------|--------------------|---------------------------|
| Revenue  | 2       | 33,847             | <b>33,258</b>             |
| Cost of sales  |         | (14,445)           | <b>(14,161)</b>           |
| General and administrative expenses                  |         | (12,523)           | <b>(11,786)</b>           |
| Other losses, net                                    | 3       | (51)               | <b>(145)</b>              |
| Finance costs, net                                   |         | (1,107)            | <b>(1,076)</b>            |
| Share of results of joint ventures                   |         | (10)               | <b>2</b>                  |
| Share of results of associates                       |         | (13)               | <b>(12)</b>               |
| Profit before income tax                             | 2, 4    | 5,698              | <b>6,080</b>              |
| Income tax   | 5       | (771)              | <b>(971)</b>              |
| Profit for the year                                  |         | <u>4,927</u>       | <u><b>5,109</b></u>       |
| Attributable to:                                     |         |                    |                           |
| Holders of Share Stapled Units/shares of the Company |         | 4,889              | <b>5,097</b>              |
| Non-controlling interests                            |         | 38                 | <b>12</b>                 |
| Profit for the year                                  |         | <u>4,927</u>       | <u><b>5,109</b></u>       |
| Earnings per Share Stapled Unit/share of the Company |         |                    |                           |
| Basic  | 7       | <u>64.62 cents</u> | <u><b>67.34 cents</b></u> |
| Diluted  | 7       | <u>64.58 cents</u> | <u><b>67.31 cents</b></u> |



**AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF  
HKT TRUST AND OF HKT LIMITED**

For the year ended December 31, 2017

(In HK\$ million)

|  | 2016  | 2017         |
|--|-------|--------------|
| Profit for the year  | 4,927 | <b>5,109</b> |
| Other comprehensive income/(loss)  |       |              |
| Items that have been reclassified or may be reclassified<br>subsequently to consolidated income statement: |       |              |
| Exchange differences on translating foreign<br>operations  | (92)  | <b>180</b>   |
| Available-for-sale financial assets:   |       |              |
| - changes in fair value  | (2)   | —            |
| - transfer to consolidated income statement on<br>impairment   | 49    | —            |
| Cash flow hedges:  |       |              |
| - effective portion of changes in fair value   | 711   | <b>(280)</b> |
| - transfer from equity to consolidated income<br>statement   | 48    | <b>(332)</b> |
| Other comprehensive income/(loss) for the year   | 714   | <b>(432)</b> |
| Total comprehensive income for the year  | 5,641 | <b>4,677</b> |
| Attributable to:   |       |              |
| Holders of Share Stapled Units/shares of the Company   | 5,603 | <b>4,665</b> |
| Non-controlling interests  | 38    | <b>12</b>    |
| Total comprehensive income for the year  | 5,641 | <b>4,677</b> |

**AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF  
HKT TRUST AND OF HKT LIMITED**

As at December 31, 2017

(In HK\$ million)

|   | Note(s) | 2016   | 2017   |
|---|---------|--------|--------|
| <b>ASSETS AND LIABILITIES</b>                         |         |        |        |
| <b>Non-current assets</b>                             |         |        |        |
| Property, plant and equipment                         |         | 18,019 | 19,386 |
| Interests in leasehold land                           |         | 253    | 240    |
| Goodwill  |         | 49,787 | 49,814 |
| Intangible assets                                     |         | 10,695 | 10,895 |
| Interests in joint ventures                           |         | 725    | 720    |
| Interests in associates                               |         | 130    | –      |
| Available-for-sale financial assets                   |         | 77     | 77     |
| Derivative financial instruments                      |         | 277    | 223    |
| Financial assets at fair value through profit or loss |         | 31     | 20     |
| Deferred income tax assets                            |         | 317    | 466    |
| Other non-current assets                              |         | 610    | 692    |
|   |         | 80,921 | 82,533 |
| <b>Current assets</b>                                 |         |        |        |
| Prepayments, deposits and other current assets        |         | 5,226  | 5,484  |
| Inventories   |         | 707    | 749    |
| Trade receivables, net                                | 8       | 3,035  | 2,787  |
| Amounts due from related companies                    |         | 96     | 77     |
| Financial assets at fair value through profit or loss |         | 13     | 17     |
| Restricted cash                                       |         | 36     | 51     |
| Short-term deposits                                   |         | 450    | 450    |
| Cash and cash equivalents                             |         | 2,882  | 3,217  |
|   |         | 12,445 | 12,832 |

**AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF  
HKT TRUST AND OF HKT LIMITED (CONTINUED)**

As at December 31, 2017

(In HK\$ million)

|  | Note(s) | 2016          | 2017          |
|--|---------|---------------|---------------|
| <b>Current liabilities</b>   |         |               |               |
| Trade payables   | 9       | (2,474)       | (1,874)       |
| Accruals and other payables  |         | (5,019)       | (5,183)       |
| Carrier licence fee liabilities  |         | (173)         | (173)         |
| Amount due to a related company  |         | (37)          | –             |
| Amounts due to fellow subsidiaries   |         | (465)         | (969)         |
| Advances from customers  |         | (2,126)       | (2,326)       |
| Current income tax liabilities   |         | (1,008)       | (1,138)       |
|  |         | (11,302)      | (11,663)      |
| <b>Non-current liabilities</b>   |         |               |               |
| Long-term borrowings   |         | (38,193)      | (39,146)      |
| Derivative financial instruments   |         | (14)          | (150)         |
| Deferred income tax liabilities  |         | (2,713)       | (2,989)       |
| Deferred income  |         | (1,021)       | (1,307)       |
| Carrier licence fee liabilities  |         | (544)         | (455)         |
| Other long-term liabilities  |         | (420)         | (596)         |
|  |         | (42,905)      | (44,643)      |
| <b>Net assets</b>  |         | <b>39,159</b> | <b>39,059</b> |
| <b>CAPITAL AND RESERVES</b>  |         |               |               |
| Share capital  |         | 8             | 8             |
| Reserves   |         | 39,088        | 39,011        |
| <b>Equity attributable to holders of Share Stapled<br/>Units/shares of the Company</b> |         | <b>39,096</b> | <b>39,019</b> |
| Non-controlling interests  |         | 63            | 40            |
| <b>Total equity</b>  |         | <b>39,159</b> | <b>39,059</b> |

## NOTES

### 1. BASIS OF PREPARATION

In accordance with the trust deed, HKT Trust (the “HKT Trust”) and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2017 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the “Company”) and its subsidiaries (together the “Group”), and the Group’s interests in associates and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2017 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the “HKT Limited Group”) and the HKT Limited Group’s interests in associates and joint ventures, and the Company’s statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2017 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The directors of the Trustee-Manager and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred to as the “HKT Trust and HKT Limited consolidated financial statements”.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are common to the HKT Trust and the Company.

The Group and the HKT Limited Group are referred to as the “Groups”.

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The following new and amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2017, but have no material effect on the Groups’ results and financial position for the current and prior accounting periods.

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

The Groups have not adopted any amendments and new or amended standards that are not yet effective for the current accounting period.

## **1. BASIS OF PREPARATION (CONTINUED)**

The financial information of the Trustee-Manager relating to the years ended December 31, 2017 and 2016 included in this preliminary announcement of annual results 2017 does not constitute the Trustee-Manager's statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Trustee-Manager's financial statements combined with the HKT Trust and HKT Limited consolidated financial statements (collectively the "Combined Financial Statements") for the year ended December 31, 2016 has been delivered to the Registrar of Companies and the Combined Financial Statements for the year ended December 31, 2017 will be delivered to the Registrar of Companies in due course.
- The Trustee-Manager's auditor has reported on the financial statements of the Trustee-Manager for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

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

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management has also made judgements in applying the Groups' accounting policies.

## 2. SEGMENT INFORMATION

The chief operating decision-maker (the “CODM”) is the Groups’ senior executive management. The CODM reviews the Groups’ internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

The CODM considers the business from the product perspective and assesses the performance of the following segments:

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

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization (“EBITDA”). EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, 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 Groups’ 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 statements.

## 2. SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2016  
(In HK\$ million)

|                | TSS    | Mobile | Other<br>Businesses | Eliminations | Consolidated |
|----------------|--------|--------|---------------------|--------------|--------------|
| <b>REVENUE</b> |        |        |                     |              |              |
| Total Revenue  | 21,414 | 13,063 | 237                 | (867)        | 33,847       |
| <b>RESULTS</b> |        |        |                     |              |              |
| EBITDA         | 7,671  | 5,513  | (500)               | —            | 12,684       |

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

|                | TSS    | Mobile | Other<br>Businesses | Eliminations | Consolidated |
|----------------|--------|--------|---------------------|--------------|--------------|
| <b>REVENUE</b> |        |        |                     |              |              |
| Total Revenue  | 21,841 | 12,018 | 249                 | (850)        | 33,258       |
| <b>RESULTS</b> |        |        |                     |              |              |
| EBITDA         | 7,816  | 5,757  | (576)               | —            | 12,997       |

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

| In HK\$ million   | 2016    | 2017    |
|---|---------|---------|
| Total segment EBITDA  | 12,684  | 12,997  |
| Gain/(loss) on disposal of property, plant and equipment and intangible assets, net | 3       | (1)     |
| Depreciation and amortization   | (5,808) | (5,685) |
| Other losses, net   | (51)    | (145)   |
| Finance costs, net  | (1,107) | (1,076) |
| Share of results of joint ventures  | (10)    | 2       |
| Share of results of associates  | (13)    | (12)    |
| Profit before income tax  | 5,698   | 6,080   |

## 2. SEGMENT INFORMATION (CONTINUED)

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

| In HK\$ million                         | 2016          | 2017          |
|---|---------------|---------------|
| Hong Kong                               | 28,717        | 27,884        |
| Mainland China, Macau and Taiwan, China | 743           | 579           |
| Others                                  | 4,387         | 4,795         |
|   | <b>33,847</b> | <b>33,258</b> |

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$79,180 million as at December 31, 2017 (2016: HK\$77,477 million). The total of these non-current assets located in other countries are HK\$2,448 million as at December 31, 2017 (2016: HK\$2,604 million).

## 3. OTHER LOSSES, NET

| In HK\$ million   | 2016        | 2017         |
|---|-------------|--------------|
| Gain on disposal on an available-for-sale financial asset         | —           | 6            |
| Provision for impairment on interests in associates               | —           | (154)        |
| Provision for impairment on an available-for-sale financial asset | (54)        | —            |
| Net gain on fair value hedging instruments                        | 4           | —            |
| Others  | (1)         | 3            |
|   | <b>(51)</b> | <b>(145)</b> |

## 4. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

| In HK\$ million                               | 2016  | 2017   |
|---|-------|--------|
| Cost of inventories sold                      | 5,032 | 4,044  |
| Cost of sales, excluding inventories sold     | 9,413 | 10,117 |
| Depreciation of property, plant and equipment | 1,432 | 1,381  |
| Amortization of intangible assets             | 4,364 | 4,291  |
| Amortization of land lease premium            | 12    | 13     |
| Finance costs on borrowings                   | 1,040 | 1,068  |



## 5. INCOME TAX

| In HK\$ million                 | 2016       | 2017       |
|---------------------------------|------------|------------|
| Hong Kong profits tax           | 646        | <b>804</b> |
| Overseas tax                    | 52         | <b>38</b>  |
| Movement of deferred income tax | 73         | <b>129</b> |
|                                 | <b>771</b> | <b>971</b> |

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Overseas tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

## 6. DISTRIBUTIONS/DIVIDENDS

| In HK\$ million   | 2016         | 2017         |
|---|--------------|--------------|
| Interim distribution/dividend declared and paid in respect of current year of 28.12 HK cents (2016: 27.09 HK cents) per Share Stapled Unit/ordinary share of the Company                                    | 2,051        | <b>2,129</b> |
| Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units award schemes  | (1)          | —            |
|   | <b>2,050</b> | <b>2,129</b> |
| Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 34.76 HK cents (2016: 28.27 HK cents) per Share Stapled Unit/ordinary share of the Company | 2,141        | <b>2,632</b> |
| Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units award schemes  | (1)          | (2)          |
|   | <b>2,140</b> | <b>2,630</b> |
|   | <b>4,190</b> | <b>4,759</b> |

For the year ended December 31, 2017, the Company proposed a final dividend of 36.75 HK cents per ordinary share, totaling HK\$2,783 million (2016: 34.76 HK cents per ordinary share, totaling HK\$2,632 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2017, HKT Trust proposed a final distribution of 36.75 HK cents per Share Stapled Unit, totaling HK\$2,783 million (2016: 34.76 HK cents per Share Stapled Unit, totaling HK\$2,632 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

## 7. EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

|   | 2016          | 2017          |
|---|---------------|---------------|
| <b>Earnings (in HK\$ million)</b>   |               |               |
| Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company  | 4,889         | 5,097         |
| <b>Number of Share Stapled Units/shares of the Company</b>  |               |               |
| Weighted average number of Share Stapled Units/ordinary shares of the Company   | 7,571,742,334 | 7,571,742,334 |
| Effect of Share Stapled Units held under the Company's Share Stapled Units award schemes  | (6,386,484)   | (2,233,258)   |
| Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company   | 7,565,355,850 | 7,569,509,076 |
| Effect of Share Stapled Units awarded under the Company's Share Stapled Units award schemes   | 4,884,955     | 2,832,205     |
| Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Share Stapled Unit/share of the Company | 7,570,240,805 | 7,572,341,281 |

## 8. TRADE RECEIVABLES, NET

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

| In HK\$ million                          | 2016  | 2017  |
|--|-------|-------|
| 1 – 30 days                              | 1,910 | 2,008 |
| 31 – 60 days                             | 394   | 207   |
| 61 – 90 days                             | 245   | 170   |
| 91 – 120 days                            | 137   | 99    |
| Over 120 days                            | 539   | 486   |
|  | 3,225 | 2,970 |
| Less: Impairment loss for doubtful debts | (190) | (183) |
|  | 3,035 | 2,787 |

Included in trade receivables, net of the Groups were the amounts due from related parties of HK\$36 million (2016: HK\$12 million).

## 8. TRADE RECEIVABLES, NET (CONTINUED)

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 Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted.

## 9. TRADE PAYABLES

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

| In HK\$ million | 2016         | 2017         |
|-----------------|--------------|--------------|
| 1 – 30 days     | 1,557        | <b>1,257</b> |
| 31 – 60 days    | 154          | <b>125</b>   |
| 61 – 90 days    | 82           | <b>39</b>    |
| 91 – 120 days   | 32           | <b>46</b>    |
| Over 120 days   | 649          | <b>407</b>   |
|                 | <b>2,474</b> | <b>1,874</b> |

Included in trade payables of the Groups were the amounts due to related parties of HK\$50 million (2016: HK\$58 million).

**AUDITED INCOME STATEMENT OF  
HKT MANAGEMENT LIMITED**

For the year ended December 31, 2017

| In HK\$'000                         | 2016 | 2017        |
|-------------------------------------|------|-------------|
| Management fee income               | 48   | <b>54</b>   |
| General and administrative expenses | (48) | <b>(54)</b> |
| Profit before income tax            | —    | —           |
| Income tax                          | —    | —           |
| Profit for the year                 | —    | —           |

**AUDITED STATEMENT OF COMPREHENSIVE INCOME OF  
HKT MANAGEMENT LIMITED**

For the year ended December 31, 2017

| In HK\$'000                             | 2016 | 2017 |
|---|------|------|
| Profit for the year                     | —    | —    |
| Other comprehensive income              | —    | —    |
| Total comprehensive income for the year | —    | —    |

**AUDITED STATEMENT OF FINANCIAL POSITION OF  
HKT MANAGEMENT LIMITED**

As at December 31, 2017

| In HK\$'000                         | 2016  | 2017  |
|-------------------------------------|-------|-------|
| <b>ASSETS AND LIABILITIES</b>       |       |       |
| <b>Current assets</b>               |       |       |
| Amount due from a fellow subsidiary | 222   | 276   |
|                                     | 222   | 276   |
| <b>Current liabilities</b>          |       |       |
| Accruals and other payables         | (129) | (131) |
| Amount due to a fellow subsidiary   | (93)  | (145) |
|                                     | (222) | (276) |
| <b>Net assets</b>                   | —     | —     |
| <b>CAPITAL AND RESERVES</b>         |       |       |
| Share capital                       | —     | —     |
| Reserves                            | —     | —     |
| <b>Total equity</b>                 | —     | —     |

As at the date of this announcement, the directors of the Trustee-Manager and the Company are as follows:

*Executive Directors:*

Li Tzar Kai, Richard (*Executive Chairman*); Alexander Anthony Arena (*Group Managing Director*) and Hui Hon Hing, Susanna (*Group Chief Financial Officer*)

*Non-Executive Directors:*

Peter Anthony Allen; Chung Cho Yee, Mico; Lu Yimin; Li Fushen and Srinivas Bangalore Gangaiah (aka BG Srinivas)

*Independent Non-Executive Directors:*

Professor Chang Hsin Kang, FREng, GBS, JP; Sunil Varma; Aman Mehta and Frances Waikwun Wong

**Forward-Looking Statements**

This announcement may contain certain forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT relating to the business, industry and markets in which HKT operates.