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HKT CAPITAL NO. 4 LIMITED

(incorporated in the British Virgin Islands with limited liability)

U.S.$750,000,000
3.00% GUARANTEED NOTES DUE 2026
irrevocably and unconditionally jointly and severally guaranteed by

HKT GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

and

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

(incorporated in Hong Kong with limited liability)

ISSUE PRICE: 99.700%

The 3.00% Guaranteed Notes due 2026 (the "**Notes**") in the aggregate principal amount of U.S.$750,000,000 to be issued by HKT Capital No. 4 Limited (the "**Issuer**") will be irrevocably and unconditionally jointly and severally guaranteed (the "**Guarantee**") by HKT Group Holdings Limited ("**HKTGH**") and Hong Kong Telecommunications (HKT) Limited (each of HKTGH and Hong Kong Telecommunications (HKT) Limited, a "**Guarantor**" and together, the "**Guarantors**").

The Notes will bear interest from 14 July 2016 at the rate set forth above, payable semi-annually in arrear on 14 January and 14 July of each year (commencing on 14 January 2017). The Notes mature on 14 July 2026. The Notes are not redeemable prior to maturity, except that the Notes may be redeemed, in whole but not in part, in the event of certain developments affecting taxation at 100% of their principal amount plus accrued interest, as described in this Offering Circular.

The Notes will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of such Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Notes are expected to be rated "Baa2" by Moody's Investors Service Limited ("**Moody's**") and "BBB" by Standard & Poor's Ratings Services ("**S&P**"). A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing of and quotation for the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST and quotation of the Notes is not to be taken as an indication of the merits of the Issuer, the Guarantor, its subsidiaries, its associated companies, if any, or the Notes.

Investing in the Notes involves risks. Please see "Risk Factors" beginning on page 10.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "Subscription and Sale".

The Notes will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 14 July 2016 (the "**Issue Date**") with a common depositary for, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Lead Global Coordinators and Joint Bookrunners

HSBC **Goldman Sachs** **Mizuho Securities**

Joint Coordinating Arrangers and Joint Bookrunners

BofA Merrill Lynch **ANZ** **Morgan Stanley** **Standard Chartered Bank**

7 July 2016

The Issuer and each Guarantor are responsible for the accuracy and completeness of the information in this Offering Circular and the Issuer and each Guarantor represent and warrant that the information in this Offering Circular is accurate and complete in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any material respect, provided that for the information provided by third-party sources contained herein, the Issuer and each Guarantor accept responsibility for accurately reproducing such information but accept no further or other responsibility in respect of such information.

Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as at the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuer and the Guarantors may have changed since that date.

This Offering Circular is based on information provided by the Issuer and each Guarantor and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY NOTE OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTORS OR THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, each Guarantor, The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C. and Mizuho Securities Asia Limited (together, the "**Joint Lead Global Coordinators and Joint Bookrunners**") and Merrill Lynch International, Australia and New Zealand Banking Group Limited, Morgan Stanley & Co. International plc and Standard Chartered Bank (together, the "**Joint Coordinating Arrangers and Joint Bookrunners**" and together with the Joint Lead Global Coordinators and Joint Bookrunners, the "**Joint Lead Managers**" and each a "**Joint Lead Manager**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Singapore, Japan, Hong Kong, the Cayman Islands and the British Virgin Islands and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see "Subscription and Sale".

This Offering Circular has been prepared by the Issuer and each Guarantor solely for use in connection with the offering of the Notes related thereto and described herein. The Issuer, each Guarantor and each of the Joint Lead Managers reserve the right to reject any offer to purchase the Notes offered hereby in the primary market, in whole or in part, for any reason.

Each person receiving this Offering Circular acknowledges that (i) such person has been afforded an opportunity to request from the Issuer and each Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Joint Lead Managers or any person affiliated with them in connection with any investigation of the accuracy of such information or its investment decision, and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantors or the Notes (other than as contained herein and information given by duly authorised officers and employees of the Issuer and each Guarantor in connection with investors' examination of the Issuer and each Guarantor and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, each Guarantor, the Joint Lead Managers, The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**") or the Agents (as defined in the Terms and Conditions of the Notes).

None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantors or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents.

In making an investment decision, investors must rely on their own examination of the Issuer and each Guarantor and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes. The Notes have not been recommended by the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or the Agents.

No representation or warranty, expressed or implied, is made by the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates or agents as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates and agents have not independently verified any of such information and assumes no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or any Agent or any of their respective affiliates or agents accepts any responsibility for the contents of this Offering Circular or for any statements made or purported to be made by any such person or on its behalf in connection with the Issuer, the Group, the Guarantors, the issue and offering of the Notes or the Guarantee. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates or agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statements.

IN CONNECTION WITH THIS OFFERING, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE "STABILISING MANAGER") OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) TO DO THIS. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under "Risk Factors", "Business" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Each of the Issuer and Guarantors expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the expectations of the Issuer or the Guarantors. All subsequent written and forward-looking statements attributable to the Issuer or a Guarantor or persons acting on behalf of the Issuer or a Guarantor are expressly qualified in their entirety by such cautionary statements.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "**PRC**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, all references to "**U.S.**" are to the United States of America, all references to "**H.K. dollars**" "**HK**$" or "**cents**" are to Hong Kong dollars and cents and all references to "**U.S. dollars**" or "**U.S.$**" are to the lawful currency of the U.S.. Such translations should not be construed as representations that the Hong Kong dollar or U.S. dollar amounts referred to herein could have been, or could be, converted into any other currency at that or any other rate or at all. See "Exchange Rates".

As used in this Offering Circular:

"**2G**", "**3G**" and "**4G**" refers to second, third and fourth generation mobile wireless telecommunications technology;

"**ADSL**" refers to asymmetric digital subscriber line technology used for data transmission over fixed-line telephone lines;

"**ARPU**" refers to average revenue per user;

"**BA**" refers to the Broadcasting Authority established under the Broadcasting Authority Ordinance in 1987 and which has been replaced since 1 April 2012 by the CA;

"**CA**" refers to the Communications Authority, which merges the offices of the former Broadcasting Authority and Telecommunications Authority;

"**CDMA**" refers to Code Division Multiple Access, which is a type of digital wireless transmission technology based on spread-spectrum technology. CDMA supports transmission of multiple digital signals simultaneously over the same carrier frequency (the same channel);

"**CDN**" refers to content delivery network or content distribution network, which is a system of computers containing copies of data placed at various nodes of a network;

"**CSL**" refers to CSL Limited, an indirect wholly-owned subsidiary of CSL Holdings;

"**CSL Group**" refers to CSL Holdings and its subsidiaries;

"**CSL Holdings**" refers to CSL Holdings Limited (formerly known as CSL New World Mobility Limited), a company incorporated in Bermuda, which was engaged, through its subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products to customers in Hong Kong;

"**data-switching**" refers to the digital networking communication method that groups transmitted data into blocks for transmission over a network;

"**EBITDA**" represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and joint ventures, and the Group's share of results of an associate 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 HKFRS 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;

"**FTTB**" means fibre-to-the-building;

"**FTTH**" means fibre-to-the-home;

"**Group**" refers to HKTGH and its subsidiaries (collectively);

"**HKFRS**" refers to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

"**HKT**" refers to HKT Limited, a company incorporated in the Cayman Islands; the share stapled units of HKT and the HKT Trust are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823);

"**HKT Group**" refers to HKT and its subsidiaries (collectively);

"**HKT Trust**" refers to the trust established under the laws of Hong Kong as a fixed single investment trust and known as the "HKT Trust" currently indirectly owned as to approximately 63.07% by PCCW;

"**Internet**" refers to the global system of interconnected computer networks;

"**IP**" refers to Internet protocol, the protocol used for communicating data across a network;

"**IPTV**" refers to Internet protocol television, a system through which television services are delivered using the architecture and networking methods of the IP suite over a packet-switched network infrastructure, e.g. the Internet and managed broadband IP networks;

"**IPX**" refers to IP packet exchange, which is a telecommunications interconnection model for the exchange of IP based traffic between customers of separate mobile and fixed operators as well as other types of service providers (such as internet service providers), via IP based network-to-network interface; in the interconnection context, IPX is used to mean an interconnection at the service level (not at the network level);

"**LTE**" refers to long term evolution technology, considered a fourth generation technology for cellular mobile;

“**MPLS**” refers to multi-protocol label switching network, a mechanism in high-performance telecommunications networks which directs and carries data from one network node to the next with the help of labels and helps to preserve quality of service on IP networks;

“**MPLS VPN**” refers to a family of methods for harnessing the power of MPLS to create VPNs;

“**OFTA**” refers to the Office of the Telecommunications Authority in Hong Kong and which has been replaced since 1 April 2012 by the OFCA;

“**OFCA**” refers to the office of the CA;

“**PCCW**” refers to PCCW Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited (stock code: 0008);

“**PCCW Group**” refers to PCCW and its subsidiaries (collectively);

“**SFO**” refers to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being;

“**Smartphones**” refers to mobile phones offering advanced capabilities;

“**VDSL**” refers to very-high-bitrate digital subscriber line, a digital subscriber line technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires (up to 52 Mbit/s downstream and 16 Mbit/s upstream) and on coaxial cable (up to 85 Mbit/s down-and upstream), utilising the frequency band from 25 kHz to 12 MHz. An enhanced variant known as VDSL-2 can offer even higher data rates;

“**VPN**” refers to virtual private network, a secure way of connecting to a private local area network at a remote location, using the Internet or any insecure public network to transport network data packets privately using encryption;

“**Wi-Fi**” refers to the trademark used to brand a variety of products that belong to a class of wireless local area network devices; and

“**ZhongYing JV**” refers to Unihub China Information Technology Company Limited, a company incorporated in the PRC.

Any discrepancies in the tables included herein between the listed amounts and the totals thereof are due to rounding.

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SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety. The summary is also qualified in its entirety by the audited financial statements of HKTGH and notes thereto and the selected financial information of Hong Kong Telecommunications (HKT) Limited (the "**Audited Financial Information**") appearing elsewhere in this Offering Circular.*

Overview

The share stapled units of the HKT Trust and HKT are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823). HKT is the holding company of each of the Guarantors.

The Group is Hong Kong's premier telecommunications service provider and leading operator in fixed-line, broadband and mobile communication services. It provides a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres to the Hong Kong public and local and international businesses.

The Group offers a unique quadruple-play experience delivering media content on its fixed-line, broadband Internet access and mobile platforms jointly with its parent company, PCCW.

The Group also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers more convenient, whether they are at home, in the workplace, or on the go.

HKTGH is a direct and wholly-owned subsidiary of HKT and Hong Kong Telecommunications (HKT) Limited is an indirect and wholly-owned subsidiary of HKTGH. HKTGH is a holding company which holds the telecommunications business of the Group and Hong Kong Telecommunications (HKT) Limited is the main operating entity in the Group.

The Group had approximately 19,400 employees as at 31 December 2015 in over 45 countries and cities. About 57% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States.

The telecommunications business of the Group comprises three business segments: telecommunications services, mobile services and other businesses:

- Telecommunications services: provides four core areas of telecommunications products and services, being local telephony services, local data and broadband services, international telecommunications services and other services.

- Mobile services: the Group offers 2G, 3G, 4G LTE and CDMA mobile services marketed under the "1010", "csl." and "Sun Mobile" brands and Wi-fi services marketed under the "csl. Wi-Fi" brand.

- Other businesses: comprise Relish Networks plc (formerly known as Keycom plc), which was acquired in April 2015. Relish Networks plc provides design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom.

Competitive Strengths

The Group believes that its principal competitive strengths are as follows:

- The Group is the leading telecommunications service provider in Hong Kong with a stable business that generates strong recurring cash flow;
- The Group has attractive growth prospects for its mobile and broadband services;
- The Group has comprehensive delivery platforms;
- The Group has strong brand recognition and a reputation for quality and reliability;
- The Group has an extensive fibre-rich telecommunications network and infrastructure; and
- The Group has an experienced management team.

Key Strategies

The Group's key strategies are as follows:

- Increase revenue from the Group's fixed line, broadband and mobile telecommunications services;
- Broaden the range of products and services offered;
- Maintain the Group's leading network infrastructure; and
- Focus on cost control and efficiency measures.

THE OFFERING

The following is a brief summary of the terms of the offering of the Notes. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes".

Issuer..	HKT Capital No. 4 Limited.
Guarantors	HKTGH and Hong Kong Telecommunications (HKT) Limited.
Notes Offered	U.S.$750,000,000 aggregate principal amount of 3.00% Guaranteed Notes due 2026.
Guarantee	Payment of all sums from time to time payable in respect of the Notes is jointly and severally, irrevocably and unconditionally guaranteed by the Guarantors.
Issue Price	99.700%.
Maturity Date	14 July 2026.
Interest Payment Dates.................	14 January and 14 July each year, commencing on 14 January 2017.
Interest	The Notes will bear interest from 14 July 2016 at the rate of 3.00% per annum, payable semi-annually in arrear.
Ranking of the Notes	The Notes will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Ranking of the Guarantee	The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of each Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.
Events of Default	The Notes will contain certain events of default, including a cross acceleration provision as further described in Condition 8 of the Terms and Conditions of the Notes.

Additional Amounts	In the event that certain British Virgin Islands, Cayman Islands or Hong Kong taxes are payable in respect of payments under the Notes or the Guarantee or the payment by either Guarantor to the Issuer in order for the Issuer to make a payment in respect of the Notes, the Issuer or either Guarantor, as the case may be, will, subject to certain exceptions, pay such additional amounts as will result, after deduction or withholding of such taxes, in the receipt by the Noteholders of the amounts as would have been received by them, had no such deduction or withholding been required. See "*Terms and Conditions of the Notes — Taxation*".
Redemption for Tax Reasons........	The Notes are not redeemable prior to maturity except that the Notes may be redeemed at any time at the option of the Issuer, in whole but not in part, at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, either the Issuer or a Guarantor is, or would be, obligated to pay additional amounts in respect of the Notes or Guarantee. See "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons*".
Further Issues	The Issuer may, from time to time, without the consent of the holders of the Notes, create and issue further notes having the benefit of a guarantee from the Guarantors and the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, the issue price, and the first interest payment date and, to the extent necessary, certain temporary securities law transfer restrictions). Additional notes issued in this manner will be consolidated and form a single series with the previously outstanding Notes.
Governing Law	The Notes and the Trust Deed and all non-contractual obligations arising out of or in connection with them are governed by English law.
Denomination, Form and Registration	The Notes will be registered and issued in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Notes will not be issued in exchange for beneficial interests in the Global Certificate.

Clearance and Settlement	The Notes have been accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS1438451848 Common Code: 143845184
Listing	Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum trading board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.
Ratings	The Notes are expected to be rated "Baa2" by Moody's and "BBB" by S&P. A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Principal Paying Agent and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Use of Proceeds	The net proceeds of the offering of the Notes, after deducting fees, commissions and expenses, are estimated to be approximately U.S.$744.3 million. The Group will use the net proceeds for its general corporate purposes, including the repayment of existing indebtedness.

SELECTED FINANCIAL INFORMATION

The following tables set forth the summary of consolidated financials of HKTGH as at the end of and for the years indicated. The selected financial information presented below as at 31 December 2014 and 31 December 2015 and for the two years ended 31 December 2015 has been extracted from HKTGH's audited consolidated financial statements for the year ended 31 December 2015 and should be read in conjunction with the audited consolidated financial statements of HKTGH, including the notes thereto, reproduced elsewhere in this Offering Circular.

Consolidated Statement of Financial Position

	As at 31 December	
	2014	**2015**
	(HK$ million)	
	(audited)	
Assets and Liabilities		
Non-current assets		
Property, plant and equipment	15,489	16,674
Interests in leasehold land	278	265
Goodwill	49,655	49,817
Intangible assets	10,307	9,314
Interest in an associate	171	67
Interests in joint ventures	473	470
Available-for-sale financial assets	61	7
Financial assets at fair value through profit or loss	41	62
Deferred income tax assets	371	231
Other non-current assets	639	630
	77,485	77,537
Current assets		
Prepayments, deposits and other current assets	3,998	4,455
Inventories	621	598
Trade receivables, net	3,875	3,422
Amounts due from related companies	76	73
Derivative financial instruments	49	—
Financial assets at fair value through profit or loss	59	58
Restricted cash	—	10
Cash and cash equivalents	3,510	3,743
	12,188	12,359

	As at 31 December	
	2014	2015
	(HK$ million)	
	(audited)	
Current liabilities		
Short-term borrowings	3,877	3,879
Trade payables	1,979	2,194
Accruals and other payables	5,030	4,899
Carrier licence fee liabilities	433	452
Amounts due to a related company	94	72
Amounts due to fellow subsidiaries and the immediate holding company	7,824	7,795
Advances from customers	1,997	2,066
Current income tax liabilities	398	723
	21,632	22,080
Non-current liabilities		
Long-term borrowings	32,549	32,436
Derivative financial instruments	100	443
Deferred income tax liabilities	2,591	2,552
Deferred income	1,033	1,079
Carrier licence fee liabilities	954	627
Other long-term liabilities	136	285
	37,363	37,422
Net assets	30,678	30,394
Capital and Reserves		
Share capital	4,961	4,961
Reserves	25,610	25,314
Equity attributable to equity holders of HKTGH	30,571	30,275
Non-controlling interests	107	119
Total equity	30,678	30,394

Consolidated Income Statement

	For the year ended 31 December	
	2014	2015
	(HK$ million)	
	(audited)	
Revenue	28,823	34,729
Cost of sales	(12,053)	(15,539)
General and administrative expenses	(12,400)	(13,277)
Other gains, net	119	23
Finance costs, net	(1,162)	(1,349)
Share of results of an associate	(35)	(27)
Share of results of joint ventures	5	(9)
Profit before income tax	3,297	4,551
Income tax	(236)	(593)
Profit for the year	3,061	3,958
Attributable to:		
Equity holders of HKTGH	2,994	3,921
Non-controlling interests	67	37
Profit for the year	3,061	3,958

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2014	2015
	(HK$ million)	
	(audited)	
Profit for the year	3,061	3,958
Other comprehensive income		
Items that may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	(147)	(106)
- exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	(79)	—
Available-for-sale financial assets:		
- changes in fair value	(110)	(54)
Cash flow hedges		
- effective portion of changes in fair value	(18)	(263)
- transfer from equity to consolidated income statement	(24)	(77)
Other comprehensive loss for the year	(378)	(500)
Total comprehensive income for the year	2,683	3,458
Attributable to:		
Equity holders of HKTGH	2,616	3,421
Non-controlling interests	67	37
Total comprehensive income for the year	2,683	3,458

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer, the Guarantors and the Group and the industry in which the Group operates together with all other information contained in this Offering Circular, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer, the Guarantors or the Group that are not currently known to the Issuer, the Guarantors or the Group or that the Issuer, the Guarantors or the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer, the Guarantors or the Group and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Offering Circular and their personal circumstances.

RISKS RELATING TO THE GROUP'S BUSINESS

Increased competition has adversely affected and may continue to affect the Group's businesses

The Hong Kong Government's policies relating to liberalisation of the telecommunications industry have led to increased competition for the Group in the markets for local and international telecommunications services. New licences have been granted to other service providers and the industry has had to adapt to significantly more competitors in the market. The Group has operated in this competitive landscape for almost twenty years and has had to adapt its business strategies in light of the changed marketplace. Increased competition has resulted in pricing pressure, loss of market share, additional promotional, marketing and customer acquisition expenses and reduced gross margins for the Group, and such effects may be repeated in the future.

More generally, companies in the Hong Kong telecommunications industry operate under licences granted by the CA. The Group's operations could be adversely affected if any of its existing licenses are amended, not renewed or revoked. The viability or competitiveness of the Group's businesses could also be affected by any future regulatory changes. These factors may continue to adversely affect the Group's results of operations, cash flows and financial position.

Regulatory decisions could adversely affect the Group

Under the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong), the CA, on the basis of the powers originally conferred on the Telecommunications Authority, has certain discretionary powers to direct the Group and its other licensees 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. In the event the CA exercises such powers and the Group is required to undertake and provide interconnection services and facilities or co-operate and share facilities with other operators, the Group may be required to do so on terms which force it to incur costs that may not be fully recoverable.

Since 1995, most interconnection and facility sharing issues have been resolved either by industry agreement or OFTA (now OFCA) intervention. Fixed to fixed interconnection arrangements have not been the subject of significant regulatory dispute or OFTA (now OFCA) intervention for several years. A 2013 CA decision deregulated such arrangements and HKT has commercially negotiated follow on arrangements. Mobile to mobile interconnection has always been carried out pursuant to carrier agreements employing a "Bill and Keep" methodology. Unbundled local loop requirements have been phased out and arrangements are now de-regulated and governed by carrier-to-carrier contracts. In April 2007, subject to a two-year transition period, the Telecommunications Authority withdrew its guidance for interconnection terms between fixed network and mobile telecommunications operators, leaving carriers to negotiate their own terms of interconnection. The Group has agreed fixed-mobile interconnection terms with the other Hong Kong carriers employing the "Bill and Keep" methodology.

In 2011, OFTA (now OFCA) completed its review of its Local Access Charge ("**LAC**") regime which relates to the interconnection charges applied to international voice minutes which originate or terminate on the fixed networks in Hong Kong. It decided to extend the LAC regime to the mobile network operators and to deregulate the payment levels subject to an 18-month transition period which has now ended. Commercial arrangements have now been negotiated among the carriers.

Should the Group be unable to agree interconnection terms with other licensees, including future renewal terms, the CA could intervene and invoke its power to determine these terms. The Group (with both fixed and mobile businesses) can give no assurance that the results of any regulatory intervention will be favourable to the Group.

Initial spectrum releases have primarily been done by auction in Hong Kong, although the earliest releases were by beauty contests. Spectrum renewals for "1G" and "2G" bandwidths have been by a "right of first refusal". As a condition of the acquisition of CSL Holdings by HKT in May 2014, the Group did not participate in the 3G spectrum auction held in December 2014 but exercised its "right of first refusal" to retain half of its 3G spectrum. In 2016, the Group will pay the Hong Kong Government HK$1,953.6 million (approximately U.S.$250 million) for the renewal of 30 MHz of 3G spectrum which it retained via exercising its right of first refusal in relation to this spectrum in 2014. Renewal of spectrum in the 2G bandwidth will be due in 2020 or 2021. The Hong Kong Government has already started a consultation on how that spectrum will be allocated. One round of consultation has already taken place. A second round of consultation is planned. The Hong Kong Government is due to make a decision on the way forward by November 2017. The decision will affect the price for the rights of first refusal and the auction reserve price for the spectrum and may adversely affect the results of the Group.

The Group's substantial debt could impair its ability to implement its business plan

The Group has incurred significant indebtedness and, subject to limitations imposed by lenders, may incur additional debt in the future. As at 31 December 2015, the Group had a combined outstanding long term indebtedness of approximately HK$42,423 million, as adjusted to give effect to (i) the Notes being offered; (ii) the drawdown of bank loans and other borrowings of HK$7,808 million during the period from 1 January to 30 June 2016; (iii) the repayment of bank loans of HK$3,783 million during the period from 1 January to 30 June 2016; and (iv) the redemption of U.S.$500 million 4.25% guaranteed notes due in February 2016. See "Business of the Group — Financing".

The Group intends to fund the spectrum utilisation fee of HK$1,953.6 million due in 2016 for 3G spectrum renewal by debt and therefore the amount of debt may increase as a result.

As long as the Group has a substantial amount of debt, the consequences of this debt to the Group's business, among other things, could be to:

- require the Group to dedicate a substantial portion of its cash flow from operations to servicing of its existing debt, reducing the availability of its cash flow to fund working capital, capital expenditure, acquisitions, research, development and other general corporate requirements;
- make it more difficult for the Group to satisfy its payment obligations, particularly in the event that market or operational conditions deteriorate;
- increase the Group's vulnerability to general adverse economic and industry conditions;

- limit the Group's flexibility in planning for, or reacting to, changes in its business in which the Group operates;
- limit the Group's ability to obtain refinancing where necessary;
- limit the Group's ability to take advantage of significant new business opportunities; and
- place the Group at a competitive disadvantage compared to its competitors that have less debt.

The Group is exposed to interest rate risk

The Group has a substantial portion of debt with a floating interest rate. The Group seeks to achieve a balance between fixed and floating interest rates for its borrowings by managing the proportion of its borrowings in fixed interest rates and floating interest rates. However, its interest rate management policy may not adequately cover the Group's exposure to interest rate fluctuations and this may result in a large interest expense and an adverse effect on the Group's financial condition and results of operations. In December 2015, the Federal Open Market Committee ("**FOMC**") started to raise the federal funds rate by 25 bps and if interest rates continue to rise, this may result in higher interest costs and adversely affect the Group's financial condition. This could also make it more difficult or expensive for the Group to obtain funding in the future.

The Group may not be able to obtain additional capital

The Group expects to continue to make investments to maintain, integrate and upgrade its telecommunication networks and market its new and existing services.

The Group may have to obtain additional financing if its business plans are accelerated or are affected by changes in the telecommunications industry, or if its revenue and cash flow are significantly reduced.

Financing may not be available to the Group when needed, or may only be available on terms that are unfavourable to the Group. Any debt financing, if available, may involve restrictive covenants. If the Group is unable to raise the amounts required on favourable terms, it may be unable to pursue its planned strategy, and there can be no assurance that future conditions in the financial markets will not adversely affect its ability to finance its operations. If the Group cannot raise sufficient funds on commercially acceptable terms, it may need to delay or abandon some of its developments and expansion plans or otherwise forgo market opportunities. In addition, if the Group cannot raise new debt or refinance its debt, its ability to service its debt may be affected.

The Group faces challenges in executing its growth strategy

The Group's business strategy may require it to develop its business both organically and through new business combinations, strategic investments, acquisitions and disposals. However, the Group may not be able to enter into new business combinations, strategic investments, acquisitions and disposals due to regulatory or other constraints and this could have a material adverse effect on the Group's results of operations.

In addition, acquisitions typically involve a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption to the Group's on-going business and the distraction of its management;
- the difficulty of incorporating acquired technology and rights into the Group's products and services;

- the impairment of relationships with employees and customers as a result of integration of new management and personnel;

- potential unknown liabilities associated with acquired businesses;

- higher than planned requirements to preserve and grow the value of acquired companies or, if the Group is unable to obtain access to such funds, possible loss of value of the acquired companies; and

- adverse effects on the Group's reported operating results due to the amortisation of and potential impairment provision for goodwill and other intangible assets associated with acquisitions and losses sustained by acquired companies after the date of acquisitions.

Disposals typically involve a number of risks, including:

- the potential disruption to the Group's on-going business and distraction of its management;

- proprietary and confidential information about the Group's operations may be disclosed in the due diligence process which may have an adverse effect on the Group's competitive position; and

- the impairment of relationships with employees and customers as a result of separation of businesses, management and product and/or service offerings.

The Group may also face challenges in growing its business organically, including:

- competition in its markets and challenges in maintaining customers and enhancing its services;

- the existence of regulatory requirements and barriers to entry into new areas of business; and

- the complexity of large scale projects such as building the 4G LTE network with full coverage within a desired time frame and at desirable costs.

There is no assurance that the Group will be able to implement its growth strategies successfully or that it will be able to expand the Group's activities or portfolio at any specified rate or to any specified size. The Group may not be able to complete its plans on schedule or without incurring additional expenditures or at all.

If market conditions change, if operations do not generate sufficient funds or for any other reason, the Group may decide to delay, modify or forgo some aspects of its growth strategies. The Group's future results of operations may be adversely affected if it is unable to implement growth strategies successfully.

The Group may be susceptible to risks associated with expanding its operations overseas, which could harm its operating results

The Group plans to offer the network, operations and management experience and expertise that it has acquired in Hong Kong to clients and business partners in overseas markets. The Group expects to commit substantial time and development resources to customising and developing its products and services for overseas markets and to developing relevant sales and support channels. The Group's ability to expand into these overseas markets may be constrained by the pace of deregulation in individual markets, including the timing of the removal of restrictions on foreign participation. In addition, operations outside of Hong Kong will be subject to certain risks, including:

- lack of familiarity with the overseas market, such as customer preferences and competitors' practices;

- multiple and conflicting regulations relating to communications, use of data and control of Internet access;
- changes in regulatory requirements, tariffs and import and export restrictions;
- increased costs associated with complying with the laws of numerous jurisdictions;
- fluctuations in currency exchange rates;
- lack of clarity in the interpretation of laws and regulations;
- insufficient protection of intellectual property rights;
- changes in political and economic stability; and
- potentially adverse tax consequences.

Any of these factors could have a material and adverse effect on the Group's business, results of operations and financial condition.

Any asset impairment could adversely affect the Group's financial results

The Group has non-current assets such as property, plant and equipment, interests in leasehold land, intangible assets, goodwill and investments in an associate and joint ventures, and it is required to review these assets for impairment at the end of each reporting period. This review is made with reference to the recoverable amounts in respect of those assets. Impairment of any of these assets could adversely affect the Group's financial condition and results of operations. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value-in-use. If the carrying value of an asset as reflected in the Group's statement of financial position is higher than its recoverable amount, it must make an asset impairment charge to its income statement.

The recoverable amount of an asset depends on the prevailing market conditions at the time of the review, the nature of the asset, its fair value and estimated future cash flows that are expected to be derived from the asset. The discount rate used in this review reflects the Group's current market assessment of the time value of money and the risks specific to the asset. Any reduction in the recoverable amount of an asset below its carrying value, whether due to a weak economic environment, challenging market conditions, asset or portfolio sale decisions by management or any other condition or occurrence, could be charged to the income statement and could thus materially and adversely affect the Group's results of operations and shareholders' equity in the period in which the impairment occurs.

The Group is exposed to risks relating to certain critical accounting estimates

Note 3 to the consolidated financial statements of HKTGH sets out certain critical accounting estimates, including certain subjective estimates and judgments made by the Group's management team. The underlying assumptions on which these critical accounting estimates were based may not turn out to be correct, the result of which there may be a material adverse effect on the Group's results of operations and financial position. In addition, accounting estimates used in the preparation of HKTGH's financial statements in relation to taxes may not be recognised or agreed by the relevant tax authorities in their ultimate assessments. Investors should refer to Note 3 of the consolidated financial statements of HKTGH, which are incorporated in this Offering Circular for further information.

The Group's ability to introduce new technologies to successfully respond to technological developments and to adapt existing technologies may be limited

The Group's operations depend on the successful deployment of continuously evolving technologies and its response to technological and industry developments.

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. The failure of vendor performance or technology performance to meet the Group's expectations or the failure of technology to achieve commercial acceptance could mean that the Group has to make additional unexpected capital expenditures. In addition, the Group may not be able to adapt its services to changing market conditions or establish and maintain effective distribution channels for its services. Competitors may adapt more successfully to changing market conditions, establish more effective distribution channels or introduce technologies that make the Group's products and services less competitive.

A recurrence of Severe Acute Respiratory Syndrome ("SARS"), bird flu, swine flu or other similar outbreaks including a possible outbreak of Ebola or Zika virus in the PRC, Hong Kong or certain other Asian countries may adversely affect the Group's businesses, results of operations and financial condition

There were media reports in 2009 regarding an outbreak of the influenza A/H1N1 virus or "swine flu" in the U.S., Mexico, and other countries. On 11 June 2009, the World Health Organisation raised its global pandemic alert to phase 6 after considering data confirming the outbreak. The occurrence or reoccurrence of a swine flu or other outbreak, such as an outbreak of SARS or a possible outbreak of Ebola or Zika virus, in the PRC, Hong Kong or certain other Asian countries may adversely affect the Group's customers and its ability to conduct business development. The occurrence of such an outbreak may also cause a general slowdown of the economy, and hence, the demand for the Group's products and services. The prolonged effects of such an outbreak may have a material adverse impact on the Group's business, results of operations and financial condition.

An economic downturn could adversely affect the Group's results of operations

Economic developments outside Hong Kong could adversely affect the telecommunications, communications, multimedia and broadcasting sectors in Hong Kong and elsewhere. The global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions. Slowdown in the global economies has led, and may continue to lead, to significant declines in employment, household wealth, consumer demand and as a result may slow down the economic growth in Hong Kong and elsewhere. A number of governments announced stimulus measures in response to the economic downturn. However there can be no assurance that these will result in economic recovery. More recently, increases in U.S. interest rates, movements in oil prices, volatility in the PRC securities market and decreasing economic growth rates in the PRC have caused, and may continue to cause, volatility in the financial markets, which as a result may adversely affect economic growth in Hong Kong and elsewhere.

The outlook for the global economy and financial markets remains uncertain. Although there have been recent signs of a possible economic recovery, for example in the U.S., there can be no assurance that these economies will not lapse back into recession and lead to reduced corporate investment and corporate and consumer spending in Hong Kong and elsewhere. Recently, the United Kingdom voted in a national referendum to withdraw from the European Union. While the immediate next steps are uncertain, the possible exit of the United Kingdom could result in significant macroeconomic deterioration, including, but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

In addition, deterioration of the financial markets may affect the availability of credit and the cost of financing. The Group may have difficulty accessing the financial markets, which could make it more difficult or expensive to obtain funding in the future. There can be no assurance that the Group will be able to raise finance at a reasonable cost.

Currency fluctuations could adversely affect the Group's results of operations

Although a significant part of the Group's outstanding debt and guarantee obligations are denominated in foreign currencies including U.S. dollars and Euros, the Group has entered into a series of cross-currency swap and forward contracts with reputable financial institutions to convert these liabilities denominated in foreign currencies back into the Hong Kong dollar. Whilst such transactions hedge the Group's foreign currency risk, they do expose the Group to counterparty risk. The Hong Kong dollar has been pegged to the U.S. dollar since 1983. However, there is no assurance that such a peg will be maintained in the future. Therefore the Group's results of operations and ability to discharge its obligations could be adversely affected by the discontinuation or revaluation of the peg between the Hong Kong dollar and U.S. dollar or the insolvency of its counterparty. In addition, even if the peg continues, the Group's operating costs could be adversely affected by substantial fluctuations in the U.S. dollar.

Although the Group has an insignificant portion of revenues and costs denominated in Renminbi, substantial fluctuations in Renminbi may also have an adverse impact on the Group's results of operations.

The Group is exposed to risks relating to complex transactions and contractual arrangements

The Group has entered into a number of complex transactions and contractual arrangements. These include, among other things, financing and other contracts and instruments, investments, acquisitions, sales agreements, intra group transfer pricing arrangements and other contractual arrangements. These transactions and contractual arrangements could give rise to differences in interpretation, disputes, claims or other developments with the applicable counterparties or regulators, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Loss of key management and other qualified personnel could weaken the Group's businesses

A small group of key executive officers manages the Group and the loss of services of one or more of these key individuals could affect the Group's ability to make successful strategic decisions.

The service contracts with these executive management are terminable with notice periods ranging from three to twelve months. The Group cannot guarantee that these contracts will allow it to retain key employees. Additionally, the Group does not presently maintain any "key person" insurance.

The Group's management believes that its growth and success will depend largely upon 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.

Political unrest may materially and adversely affect the Group's business

Political unrest such as pro-democracy protests could disrupt operations and adversely affect the Group's business. While the Occupy Central protests which took place in the second half of 2014 in Hong Kong did not cause any material adverse effect on the operations of the Group, there can be no assurance that these or similar protests and other political unrest in the future will not have a material adverse effect on the Group's operations, profits and financial position.

The continuity of the Group's services is highly dependent on the proper functioning of its networks and infrastructure, and any damage to or failure in the networks or such infrastructure could materially adversely affect the Group's business

The Group's networks are vulnerable to damage or cessation of operations from fire, earthquakes, severe storms, heavy rainfall, power loss, telecommunications failures, network software flaws, vandalism, transmission cable cuts, political unrest and other catastrophic events. The Group may experience equipment failures or shut downs relating to individual points of presence or even catastrophic failure of its entire networks. The provision of the Group's services depends on the quality, stability, resilience and robustness of its integrated networks.

For example, the operation of the Group's business requires a large amount of power. The Group cannot be certain that there will be adequate power in all of the locations in which it operates. In case of a power loss, the Group may incur a loss or damage to its equipment. The Group's customers may also seek damages from it for any loss or damage they may suffer as a result.

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 business, financial condition and results of operations.

Exposure to perceived risks associated with electromagnetic energy could adversely affect the Group's results of operations

Concerns have been expressed relating to possible adverse health consequences associated with the operations of communications or transmission devices due to potential exposure to electromagnetic energy.

While the Group is not aware of any substantiated evidence of public health effects from exposure to the levels of electromagnetic energy typically emitted from communicating or transmitting devices, there is a risk that an actual or perceived health risk associated with communications or transmission devices could result in litigation, reduced demand for the Group's services and new government imposed restrictions. Any of the above could have a material adverse effect on the Group's financial performance and results of operations.

RISKS RELATING TO THE NOTES

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

A trading market for the Notes may not develop

No public market exists for the Notes. Approval in-principle has been received from the SGX-ST for the listing of the Notes on the Official List of the SGX-ST; however, the offering and settlement of the Notes is not conditioned on obtaining a listing. No assurances can be given as to whether the Notes will be, or will remain, listed on the SGX-ST or whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If the Notes fail to or cease to be listed on the SGX-ST, certain investors may not invest in, or continue to hold or invest in the Notes. If any of the Notes are traded after their initial issue, they may trade at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar securities and the market for the Notes and other factors, including general economic conditions and the Group's financial condition, performance and prospects. No assurance can be given as to the future price level of the Notes after their initial issue.

The Notes may be sold to a limited number of investors and liquidity of the Notes may be adversely affected if a significant portion of the Notes are bought by limited investors.

Insolvency laws of the British Virgin Islands and the Cayman Islands may differ from the bankruptcy laws of other jurisdictions with which holders of the Notes are familiar

The insolvency laws of the British Virgin Islands and Cayman Islands and other local insolvency laws may differ from the bankruptcy laws of other jurisdictions with which the holders of the Notes are familiar. Since the Issuer is incorporated under the laws of the British Virgin Islands, any insolvency proceedings relating to the Issuer, regardless of where they were brought, would likely involve British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions. In addition, HKTGH is incorporated in the Cayman Islands and the insolvency laws of Cayman Islands may also differ from the laws of other jurisdictions with which the holders of the Notes are familiar.

Claims by holders of the Notes are structurally subordinated to the Guarantors' subsidiaries

The Issuer is a special purpose vehicle and its ability to make payments in respect of the Notes depends largely upon the repayment of principal and interest by other members of the Group; the ability of the Guarantors to make payments under the Guarantee depends largely upon the receipt of dividends and distributions, interest payments or advances from their respective subsidiaries and associates. The ability of the members of the Group to make such repayments to the Issuer or to pay such amounts to the Guarantors may be subject to the profitability of the Group and applicable laws. Payments by other members of the Group to the Issuer are structurally subordinated to all existing and future liabilities and obligations of the Guarantors' subsidiaries. Claims of creditors of such subsidiaries will have priority as to the assets of such subsidiaries over the Guarantors and their creditors, including the Issuer.

Credit ratings assigned to the Notes may not reflect the potential impact of all Notes

The Notes are expected to be rated by Moody's and S&P. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

TERMS AND CONDITIONS OF THE NOTES

The following (other than the words in italics) is the text of the Terms and Conditions of the Notes which will appear on the reverse side of each of the individual certificates evidencing the Notes:

The U.S.$750,000,000 3.00% Guaranteed Notes due 2026 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of HKT Capital No. 4 Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 14 July 2016 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, HKT Group Holdings Limited ("**HKTGH**") and Hong Kong Telecommunications (HKT) Limited ("**HKT**", each of HKTGH and HKT, a "Guarantor" and HKTGH and HKT together, the "**Guarantors**") and The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 14 July 2016 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantors, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours with prior written notice at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

(a) *Form and denomination*

The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least pari *passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes*

The Guarantors have in the Trust Deed jointly and severally, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of each Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), and will be exchangeable for individual certificates only in the circumstances set out therein.*

2. **Register, Title and Transfers**

(a) ***Register***

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside of the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) ***Title***

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) ***Transfers***

Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided*, *however*, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. No transfer of title to a Note will be valid unless and until entered on the Register. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) ***Registration and delivery of Note Certificates***

Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) ***No charge***

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods***

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) ***Regulations concerning transfers and registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder who requests in writing such regulations.

3. **Negative Pledge**

Neither Guarantor will, or will permit any of its Principal Subsidiaries (other than Listed Principal Subsidiaries) to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Indebtedness of the Guarantors or any of their respective Principal Subsidiaries (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes will be secured either at least equally and ratably with such Indebtedness or by such other Lien as shall have been approved by the Holders of not less than a Majority in aggregate principal amount of the Notes at the time outstanding (as defined in the Trust Deed), for so long as such Indebtedness will be so secured, unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness (excluding that of Listed Principal Subsidiaries and their respective Subsidiaries) entered into after the date hereof would not exceed 50 per cent. of either Guarantor's Adjusted Consolidated Net Worth, save for:

(a) Liens existing on or prior to the Issue Date;

(b) Liens for taxes or assessments or other applicable governmental charges or levies;

(c) Liens created or arising by operation of law or created in the ordinary course of business, including, but not limited to, landlords' liens and statutory liens of carriers, warehousemen, mechanics, materialmen, vendors and other liens securing amounts which are not more than 60 days overdue or which are being contested in good faith;

(d) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts or undertakings, performance and return of money bonds, interconnection, access or resale agreements with other telecommunications companies or organisations, and similar obligations;

(e) easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of either Guarantor and any of their Principal Subsidiaries;

(f) Liens created on any property or assets acquired, leased or developed (including improved, constructed, altered or repaired) after the date hereof; *provided*, *however*, that (i) any such Lien shall be confined to the property or assets acquired, leased or developed (including improved, constructed, altered or repaired); (ii) the principal amount of the debt encumbered by such Lien shall not exceed the cost of the acquisition or development of such property or assets or any improvements thereto (including any construction, repair or alteration) or thereon; and (iii) any such Lien shall be created concurrently with or within three years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or assets;

(g) rights of set off of a financial institution with respect to deposits or other accounts of either Guarantor or any of their Principal Subsidiaries held by such financial institution in an amount not to exceed the aggregate amount owed to such financial institution by the relevant Guarantor or the relevant Principal Subsidiary, as the case may be;

(h) Liens on documents and the goods they represent in connection with letters of credit, trade finance and similar transactions entered into in the ordinary course of business;

(i) Liens arising in connection with industrial revenue, development or similar bonds or other indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);

(j) Liens in favour of either Guarantor or any of their Principal Subsidiaries;

(k) leases, subleases, licenses and sublicenses granted to third parties in the ordinary course of business;

(l) attachment, judgment and other similar Liens arising in connection with court proceedings which are effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings;

(m) any Lien against any property or assets of a Person existing at the time such Person becomes a Principal Subsidiary or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(n) any Lien existing on any property or assets prior to the acquisition thereof, which Lien was not created in connection with the acquisition thereof, except for Liens permitted pursuant to clause (f) above;

(o) Liens on any property or assets of either Guarantor and any of their Principal Subsidiaries in favour of any government or any subdivision thereof, securing the obligations of the relevant Guarantor or the relevant Principal Subsidiary under any contract or payment owed to such governmental entity pursuant to applicable laws, rules, regulations or statutes;

(p) Liens created in connection with any sale and leaseback transaction;

(q) any renewal or extension of any of the Liens described in the foregoing clauses which is limited to the original property or assets covered hereby; or

(r) Liens in respect of Indebtedness with respect to which either Guarantor or any of their Principal Subsidiaries has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the relevant Guarantor and its subsidiaries in respect thereof (other than the obligations that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full).

In these Conditions:

"**Adjusted Consolidated Net Worth**" means in respect of a Guarantor, the sum of (a) all amounts paid up (or credited as paid up) on all classes of the relevant Guarantor's issued share capital, revenue or capital reserves, capital contribution, or any other accounts that are included as shareholders' funds under Hong Kong GAAP and (b) the aggregate outstanding principal amount of Subordinated Indebtedness of the relevant Guarantor;

"**Calculation Amount**" means U.S.$1,000;

"**Capital Stock**" means any and all shares, interests (including joint venture interests), participations or other equivalents (howsoever designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);

"**guarantee**" means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"**Hong Kong GAAP**" means, at the time of any determination required hereunder, generally accepted accounting principles in Hong Kong;

"**Indebtedness**" of any Person means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance and that is evidenced by any agreement or other instrument, excluding trade payables; *provided*, *however*, that for the purposes of determining the amount of Indebtedness of each Guarantor outstanding at any relevant time the amount included as Indebtedness of the relevant Guarantor in respect of finance leases shall be the net amount from time to time properly characterised as "obligations under finance leases'' in accordance with Hong Kong GAAP;

"**Lien**" means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind;

"**Listed Principal Subsidiary**" means any Principal Subsidiary, the shares of which are at the relevant time listed on The Stock Exchange of Hong Kong Limited or any other recognised stock exchange;

"**Majority**" means greater than 50 per cent. of those Holders attending and voting at a meeting;

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

"**Principal Subsidiary**" means a Subsidiary of either Guarantor:

(a) as to which one or more of the following conditions is satisfied:

(i) its net profit or (in the case of a Subsidiary of the relevant Guarantor which has Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 5 per cent. of the consolidated net profit of the relevant Guarantor and its Subsidiaries (before taxation and exceptional items), but in each case after deducting minority interests in Subsidiaries; or

(ii) its net assets or (in the case of a Subsidiary of the relevant Guarantor which has Subsidiaries) consolidated net assets attributable to the relevant Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 5 per cent. of the consolidated net assets (after deducting minority interests in Subsidiaries) of the relevant Guarantor and its Subsidiaries;

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary of the relevant Guarantor and the then latest audited financial statements of the relevant Guarantor provided that: (A) in the case of a Subsidiary of the relevant Guarantor acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary of the relevant Guarantor which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the relevant Guarantor; (C) if the accounts of a Subsidiary of the relevant Guarantor (not being a Subsidiary referred to in (A) above) are not consolidated with those of the relevant Guarantor then the determination of whether or not the Subsidiary of the relevant Guarantor is a Principal Subsidiary shall, if the relevant Guarantor requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the relevant Guarantor and its Subsidiaries; or

(b) to which is transferred all or substantially all of the assets of a Subsidiary of the relevant Guarantor which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (a) above) and the Subsidiary of the relevant Guarantor to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the auditors of the relevant Guarantor as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error;

"**Subordinated Indebtedness**" means the principal amount of Indebtedness of either Guarantor (including perpetual debt, which either Guarantor is not required to repay) which:

(a) has a final maturity and a weighted average life to maturity longer than the Maturity Date (as defined in Condition 5(a) (*Redemption and Purchase* — Scheduled redemption); and

(b) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Notes including:

(x) a provision that in the event of any bankruptcy, insolvency or other similar proceeding in respect of the Guarantor, the holders of the Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon;

(y) a provision that if an event of default has occurred and is continuing hereunder, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such event of default shall have been cured or waived or shall have ceased to exist; and

(z) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Note is outstanding;

"**Subsidiary**" means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person; and

"**Voting Shares**" means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

4. Interest

The Notes bear interest from 14 July 2016 (the "**Issue Date**") at the rate of 3.00 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 14 January and 14 July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$15 in respect of the Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at 100 per cent. of their principal amount on 14 July 2026 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) ***Redemption for tax reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7 July 2016; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) either Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Amounts as provided or referred to in Condition 7 (Taxation) or the Guarantee of the Notes, as the case may be or either Guarantor has or becomes obliged to make any such withholding or deduction as is referred to in Condition 7 (Taxation) or the Guarantee of the Notes, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands (in the case of HKTGH) and Hong Kong (in the case of HKT) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 7 July 2016; and (B) such obligation cannot be avoided by the relevant Guarantor in each case, taking reasonable measures available to it;

provided, *however*, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the relevant Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or the relevant Guarantor (as the case may be) shall deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by two directors of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by two directors of the relevant Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances (each, a "**Certificate**"); and

(ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the relevant Guarantor has or will become obliged to pay Additional Amounts as a result of such change or amendment (an "**Opinion**").

The Trustee shall be entitled to accept and rely upon such Certificate and Opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) or (as the case may be) (ii)(A) and (ii)(B) above, in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer (failing which, the Guarantors jointly and severally) shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) ***No other redemption***

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) and (b) (*Redemption for tax reasons*) above.

(d) ***Purchase***

The Issuer, each Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(e) ***Cancellation***

All Notes so redeemed or purchased by the Issuer, either Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. **Payments**

(a) ***Method of payment***

Payments of principal and interest shall be made by U.S. Dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) ***Payments subject to fiscal laws***

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*) any law implementing an intergovernmental approach thereto.

(c) ***Payments on business days***

Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(d) ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(e) ***Record date***

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

7. **Taxation**

All payments in respect of the Notes by or on behalf of the Issuer or either Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands (in the case of the Issuer) or the Cayman Islands (in the case of HKTGH) and Hong Kong (in the case of HKT) or any political subdivision thereof or any authority therein or thereof having power to tax ("**Taxes**"), unless the withholding or deduction of such Taxes is required by law or the interpretation or administration thereof. In that event the Issuer or (as the case may be) either Guarantor shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(a) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection between the Holder or beneficial owner of a Note, as the case may be, and the Cayman Islands, the British Virgin Islands or Hong Kong or any political subdivision or any authority thereof or therein or any territory or possession thereof or area subject to its jurisdiction, as the case may be, otherwise than merely holding such Note or receiving amounts in respect thereof;

(b) in respect of any Note presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period;

(c) in respect of any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note;

(d) in respect of any such Taxes that would not have been so imposed, deducted or withheld if the Holder or beneficial owner of a Note or the beneficial owner of any payment on such Note had:

   (i) made a declaration of non-residence or any other claim or filing for exemption to which it is entitled; or

(ii) complied with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the Cayman Islands, the British Virgin Islands or Hong Kong of such Holder or beneficial owner of such Note,

provided that such declaration of non-residence or other claim or filing for exemption or such compliance is required by the applicable law of the Cayman Islands, the British Virgin Islands or Hong Kong as a precondition to exemption from, or reduction in the rate of the imposition, deduction or withholding of, such Taxes; and at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption or such compliance is required under the applicable law of the Cayman Islands, the British Virgin Islands or Hong Kong, the Holder of such Note at that time has been notified by the Issuer, the relevant Guarantor or any other person through whom payment may be made that a declaration of non-residence or other claim or filing for exemption or such compliance is required to be made;

(e) in respect of any payment under or with respect to a Note to any Holder that is a fiduciary or partnership or any person other than the sole beneficial owner of such Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such Note would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note;

(f) in respect of any estate, inheritance, gift, sales, excise, transfer or personal property tax or similar tax, assessment or governmental charge; or

(g) any combination of items (a) through (f) above.

The "**relevant date**" in relation to any Note means (i) the due date for payment thereof and (ii) if the full amount payable on such due date has not been received in New York City or Hong Kong by the Principal Paying Agent on or prior to such due date, the first date on which such full amount has been so received and notice to that effect has been given to the Holders.

Any reference in these Conditions to the payment of principal or interest in respect of any Note or in respect of the Guarantee of the Notes shall be deemed to include the payment of Additional Amounts provided for herein to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant hereto.

The foregoing provisions in this Condition 7 shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer (including any entity substituted in place of the Issuer, or of any previous substituted company, pursuant to Condition 12(c) (*Substitution*)) or either Guarantor is organised or any authority therein or thereof having the power to tax (a "**Successor Jurisdiction**"), substituting such Successor Jurisdiction for the Cayman Islands, the British Virgin Islands or Hong Kong, as the case may be.

Neither the Trustee nor the Agents shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, Guarantors, Noteholders or any other person to pay such tax, duty, charges, withholding or other payment.

8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment of principal*: the Issuer fails to pay principal of any Note within five business days after the due date for such payment; or

(b) *Non-payment of interest*: the Issuer fails to pay interest on any Note within 30 days after the due date for such payment; or

(c) *Breach of other obligations*: the Issuer or either Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default continues for 60 days after there has been given, to the Issuer and the Guarantors, by the Trustee a written notice specifying such default and requiring it to be remedied; or

(d) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by either of the Guarantors not to be) in full force and effect; or

(e) *Cross-acceleration*:

(i) the Issuer or either Guarantor fails to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Issuer, either Guarantor or any Principal Subsidiary;

(ii) acceleration of the maturity of any Indebtedness of the Issuer, either Guarantor or any Principal Subsidiary following a default by the Issuer, either Guarantor or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 days after receipt of the written notice as provided herein;

(iii) the Issuer, either Guarantor or any Principal Subsidiary fails to pay any amount under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 days after receipt of written notice from the Trustee;

provided, *however*, that no such event set forth in paragraphs (i), (ii) or (iii) above shall constitute an event of default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US$30,000,000 (or its equivalent in any other currency); or

(f) *Insolvency etc.*: a decree or order by a court having jurisdiction is entered under any applicable bankruptcy, insolvency, reorganisation or other similar law:

(i) for relief in respect of the Issuer, either Guarantor or any Principal Subsidiary in an involuntary case of winding up or bankruptcy proceeding under applicable law; or

(ii) adjudging the Issuer, either Guarantor or any Principal Subsidiary bankrupt or insolvent, or seeking reorganisation, winding up, arrangement, adjustment or composition of or in respect of the Issuer, either Guarantor or any Principal Subsidiary under applicable law; or

(iii) appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Issuer, either Guarantor or any Principal Subsidiary or of any substantial part of any of their properties, or ordering the winding up or liquidation of any of their affairs,

and any such decree or order remains unstayed and in effect for a period of 60 consecutive days; or

(g) *Voluntary arrangements*: the Issuer, either Guarantor or any Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Issuer, either Guarantor or any Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Issuer, either Guarantor or any Principal Subsidiary or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action.

In this Condition 8:

"**business day**" means a day in New York City and Hong Kong other than Saturday, Sunday or a day on which banking institutions in New York City or Hong Kong are authorised or obligated by law or executive order to remained closed.

The Trustee shall not be obliged to take any steps to ascertain whether an event of default has occurred or to monitor the occurrence and continuance of any event of default under this Condition 8, and shall not be liable to the Noteholders or any other person for not doing so.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest of the appropriate relevant date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Hong Kong, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee, the Agents and their respective directors and officers are entitled to enter into business transactions with the Issuer, each Guarantor and any entity relating to the Issuer or each Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, each Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantors reserve the right (having notified the Trustee in writing) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar principal paying agent or agent bank and additional or successor paying agents and transfer agents; *provided*, *however*, that the Issuer and the Guarantors shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantors (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided*, *however*, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Holders of not less than 90 per cent. in principal amount of Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders or by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Noteholders.

(b) *Modification and waiver*

The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions, the Notes or the Trust Deed which is:

(i) in the opinion of the Trustee, is a modification which will not be materially prejudicial to the interests of Noteholders (other than in respect of a Reserved Matter); or

(ii) is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification by the Issuer shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

(c) ***Substitution***

The Trust Deed contains provisions under which either Guarantor may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled, including, a requirement that the Guarantee of the Notes by the remaining Guarantor is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

(d) ***Certificates and reports***

The Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant, auditor, surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, the Guarantors, the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee will not be responsible to anyone for any liability occasioned by so acting.

(e) ***Directions from Noteholders***

Notwithstanding anything to the contrary in these Conditions or the Trust Deed, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

13. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings against any of the Issuer or the Guarantors as it thinks fit to recover any amounts due in respect of the Notes which are unpaid or enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or either Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and issue price, the first payment of interest and, to the extent necessary, certain temporary securities law transfer restrictions) so as to form a single series with the Notes.

15. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any individual certificates are issued and so long as the Global Note Certificate is held in its entirely on behalf of Euroclear and Clearstream, Luxembourg, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. **Governing Law and Jurisdiction**

(a) ***Governing law***

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) ***Jurisdiction***

Each of the Issuer and the Guarantors has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have non-exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings related to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

THE GLOBAL CERTIFICATE

*The Global Certificate contains provisions which apply to the Notes in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Notes (the "**Conditions**" or the "**Terms and Conditions**") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

The Notes will be represented by a Global Certificate which will be registered in the name of HSBC Nominees (Hong Kong) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay such principal sum to the Holder on 14 July 2026 or on such earlier date or dates as the same may become payable in accordance with the Conditions, and to pay interest on such principal sum in arrear on the dates and at the rate specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

The Global Certificate will become exchangeable in whole, but not in part, for individual note certificates ("**Individual Note Certificates**") if Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Record date

Notwithstanding Condition 6(e) (Record date), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Notices

Notwithstanding Condition 15 (Notices), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or an Alternative Clearing System, notices to Holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

Determination of entitlement

The Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of the Global Certificate.

EXCHANGE RATES

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar). Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The central element in the arrangement which gave effect to this peg is that, by agreement between the Hong Kong Government and the three Hong Kong banks that issue Hong Kong dollar banknotes, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited, certificates of indebtedness (which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issue) are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of U.S.$1.00 to HK$7.80. When banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent amount of U.S. dollars at the fixed rate of exchange.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continued to be determined by the forces of supply and demand in the foreign exchange market. In light of the fixed rate for the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK$7.80 to U.S.$1.00 since 17 October 1983. In May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar.

The Hong Kong Government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Government will maintain the link within the range of HK$7.75 to HK$7.85 per U.S. dollar or at all, or will not in the future impose exchange controls. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the U.S. dollar and such currencies.

The following table sets forth the average, high, low and period-end exchange rates between the Hong Kong dollar and the U.S. dollar (in HK$ per U.S.$1.00) at the noon buying rate in New York City for cable transfers in foreign currencies for the periods indicated (the Noon Buying Rate).

	Year Ended 31 December			
	Hong Kong Dollars/U.S. Dollars Noon Buying Rate			
	Low	**Average[(1)]**	**High**	**Period End**
2012	7.7493	7.7569	7.7699	7.7507
2013	7.7503	7.7565	7.7654	7.7539
2014	7.7495	7.7545	7.7669	7.7531
2015	7.7495	7.7524	7.7686	7.7507
2016 (as at 17 June 2016)	7.7505	7.7677	7.8270	7.7613

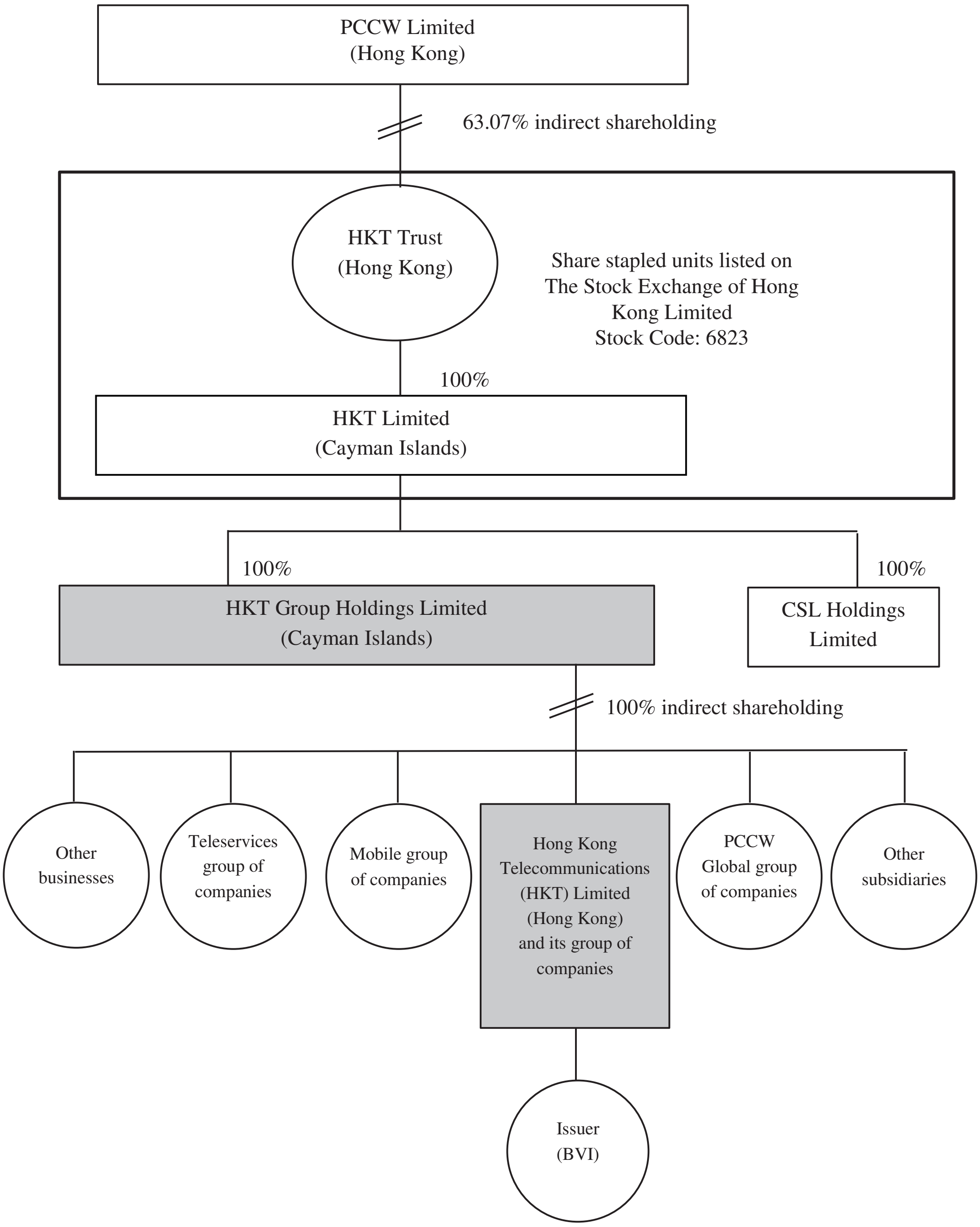
Source: www.federalreserve.gov

Note:

(1) Determined by averaging the rates on each business day during the relevant period.

DESCRIPTION OF THE ISSUER AND THE GUARANTORS

The chart below illustrates, in simplified form, the corporate structure of the Group:



Notes:

(1) Place of incorporation is mentioned in brackets.

(2) Following the completion of the acquisition of CSL Holdings Limited on 14 May 2014, HKT has reorganised the business of the CSL Group by combining and integrating it with the Group's existing mobile telecommunications business under its mobile group of companies.

The Issuer

The Issuer, an indirect and wholly-owned subsidiary of HKTGH and a direct and wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, was incorporated as a company with limited liability under the laws of the British Virgin Islands on 8 December 2015. Its registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Issuer, whose primary purpose is to act as a financing subsidiary of the Group, will remain an indirect and wholly-owned subsidiary of HKTGH and a direct and wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited as long as the Notes are outstanding and will advance the net proceeds of the Notes to other members of the Group. The Issuer has no material assets, and since its incorporation has not conducted and will not conduct any business, except relating to the offering, sale and issuance of indebtedness and the lending of the proceeds thereof to members of the Group and any other activities in connection therewith.

The directors of the Issuer are Alexander Anthony Arena and Hui Hon Hing, Susanna. The Issuer does not have any executive officers.

The Issuer is authorised to issue 50,000 ordinary shares of U.S.$1 par value each. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

The Issuer does not have any debt outstanding. The Issuer has no subsidiaries.

The Issuer has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under the laws of the British Virgin Islands. However, the Issuer is required to keep such accounts and records as the directors consider necessary or desirable in order to reflect the financial position of the Issuer.

The Guarantors

HKTGH

HKTGH, a direct and wholly-owned subsidiary of HKT, was incorporated as a company with limited liability under the laws of the Cayman Islands on 18 January 2008. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The directors of HKTGH are Alexander Anthony Arena and Hui Hon Hing, Susanna.

The authorised share capital of HKTGH is U.S.$650,000,000 divided into 650,000,000 ordinary shares of U.S.$1 par value each, of which 636,000,007 shares are issued and outstanding. No part of the equity securities of HKTGH is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Hong Kong Telecommunications (HKT) Limited

Hong Kong Telecommunications (HKT) Limited, an indirect and wholly-owned subsidiary of HKTGH, was incorporated as a company with limited liability under the laws of Hong Kong on 21 January 2008. Its registered office is located at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The directors of Hong Kong Telecommunications (HKT) Limited are Alexander Anthony Arena and Hui Hon Hing, Susanna.

The total number of shares of Hong Kong Telecommunications (HKT) Limited in issue is 2,488,200,001 ordinary shares. No part of the equity securities of Hong Kong Telecommunications (HKT) Limited is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

CAPITALISATION AND EXTERNAL INDEBTEDNESS

Capitalisation and External Indebtedness of the Guarantors

The following table sets forth on an actual basis of the consolidated capitalisation and external indebtedness of HKTGH as at 31 December 2015, and as adjusted to give effect to (i) the Notes being offered; (ii) the drawdown of bank loans and other borrowings of HK$7,808 million during the period from 1 January to 30 June 2016; (iii) the repayment of bank loans of HK$3,783 million during the period from 1 January to 30 June 2016; (iv) the redemption of U.S.$500 million 4.25% guaranteed notes in February 2016; and (v) the issuance of 2 ordinary shares of HKTGH at a subscription price of U.S.$18 million in May 2016.

	As at 31 December 2015			
	Actual		As Adjusted	
	(HK$ million) (audited)	(U.S.$ million)[1]	(HK$ million)	(U.S.$ million)[1]
Short-term debt:				
4.25% Guaranteed Notes due 2016	3,879	500	—	—
	3,879	500	—	—
Long-term debt:				
Bank loans	20,930	2,700	24,867	3,208
3.75% Guaranteed Notes due 2023	3,711	479	3,711	479
The Zero Coupon Guaranteed Notes due 2030	2,308	298	2,308	298
3.625% Guaranteed Notes due 2025	3,821	493	3,821	493
1.65% Guaranteed Notes due 2027	1,666	215	1,666	215
Other borrowings	149	19	237	31
The Notes offered hereby	—	—	5,813	750
	32,585	4,204	42,423	5,474
Total debts	36,464	4,704	42,423	5,474
Capital and reserves:				
Share capital	4,961	640	4,961	640
Reserves	25,314	3,266	25,453	3,284
Shareholder's equity	30,275	3,906	30,414	3,924
Total capitalisation and external indebtedness [2]	66,739	8,610	72,837	9,398

Notes:

(1) A rate of HK$7.7507 to U.S.$1 (as at 31 December 2015) was adopted for the conversion of HK dollar to U.S. dollar.

(2) Total capitalisation and external indebtedness represents shareholder's equity plus total debts.

Save for the adjustment events above (together with amortisation of front-end expenses and issue discount in relation thereto), there has been no material change in the external indebtedness of HKTGH since 31 December 2015.

The following table sets forth on an actual basis of the consolidated capitalisation and external indebtedness of Hong Kong Telecommunications (HKT) Limited as at 31 December 2015, and as adjusted to give effect to (i) the Notes being offered; (ii) the drawdown of bank loans and other borrowings of HK$7,808 million during the period from 1 January to 30 June 2016; (iii) the repayment of bank loans of HK$3,783 million during the period from 1 January to 30 June 2016; and (iv) the redemption of U.S.$500 million 4.25% guaranteed notes in February 2016.

	As at 31 December 2015			
	Actual		As Adjusted	
	(HK$ million) (audited)	(U.S.$ million)(1)	(HK$ million)	(U.S.$ million)(1)
Short-term debt:				
4.25% Guaranteed Notes due 2016	3,879	500	—	—
	3,879	500	—	—
Long-term debt:				
Bank loans	20,930	2,700	24,867	3,208
3.75% Guaranteed Notes due 2023	3,711	479	3,711	479
The Zero Coupon Guaranteed Notes due 2030	2,308	298	2,308	298
3.625% Guaranteed Notes due 2025	3,821	493	3,821	493
1.65% Guaranteed Notes due 2027	1,666	215	1,666	215
Other borrowings	149	19	237	31
The Notes offered hereby	—	—	5,813	750
	32,585	4,204	42,423	5,474
Total debts	36,464	4,704	42,423	5,474
Capital and reserves:				
Share capital	9,945	1,283	9,945	1,283
Reserves	3,245	419	3,245	419
Shareholder's equity	13,190	1,702	13,190	1,702
Total capitalisation and external indebtedness (2)	49,654	6,406	55,613	7,176

Notes:

(1) A rate of HK$7.7507 to U.S.$1 (as at 31 December 2015) was adopted for the conversion of HK dollar to U.S. dollar.

(2) Total capitalisation and external indebtedness represents shareholder's equity plus total debts.

Save for the adjustment events above (together with amortisation of front-end expenses and issue discount in relation thereto), there has been no material change in the external indebtedness of Hong Kong Telecommunications (HKT) Limited since 31 December 2015.

Capitalisation and External Indebtedness of the Issuer

As at the date of this Offering Circular, the Issuer had no outstanding debt and an authorised share capital of U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1 each, and issued and fully paid up share capital of U.S.$1 consisting of one share of U.S.$1.

BUSINESS OF THE GROUP

Overview

The share stapled units of the HKT Trust and HKT are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823). HKT is the holding company of each of the Guarantors.

The Group is Hong Kong's premier telecommunications service provider and leading operator in fixed-line, broadband and mobile communication services. It provides a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres to the Hong Kong public and local and international businesses.

The Group offers a unique quadruple-play experience delivering media content on its fixed-line, broadband Internet access and mobile platforms jointly with its parent company, PCCW.

The Group also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers more convenient, whether they are at home, in the workplace, or on the go.

HKTGH is a direct and wholly-owned subsidiary of HKT and Hong Kong Telecommunications (HKT) Limited is an indirect and wholly-owned subsidiary of HKTGH.

On 29 November 2011, the telecommunications business of PCCW was spun off and separately listed on The Stock Exchange of Hong Kong Limited as share stapled units. In preparation for the listing, a group reorganisation was completed on or before 29 November 2011 ("**2011 Group Reorganisation**") as summarised below:

(i) PCCW Holding Company (Beijing) Limited, an indirect wholly-owned subsidiary of HKTGH, transferred the entire registered capital of 電訊盈科(北京)有限公司 (unofficial name: PCCW (Beijing) Limited) to PCCW Services Limited, a wholly-owned subsidiary of PCCW at a consideration of HK$51.8 million;

(ii) HKTGH transferred businesses other than the telecommunications business to subsidiaries of PCCW through distribution of its interests in HKT Solutions Holdings Limited and thereby its subsidiaries (the "**Solutions Group**") and HKT Media Holdings Limited and thereby its subsidiaries (the "**Media Group**") to its immediate holding company, CAS Holding No. 1 Limited ("**CAS No. 1**") by way of special dividend in specie of shares in subsidiaries;

(iii) Certain entities and assets that constitute businesses managed by management of the telecommunications business were transferred from the Solutions Group to subsidiaries of HKTGH;

(iv) Certain entities and assets that constitute businesses managed by management of the Solutions Group were transferred from subsidiaries of HKTGH to the Solutions Group; and

(v) HKT issued 4,363,361,192 ordinary shares and 4,363,361,192 preference shares, and a promissory note of approximately HK$1,144 million to CAS No. 1, in consideration of the transfer of all the shares in HKTGH held by CAS No. 1, representing 100% interest in HKTGH, to HKT. Subsequent to the transfer, HKTGH became a direct wholly-owned subsidiary of HKT.

Upon the completion of the 2011 Group Reorganisation, the Group discontinued its involvement in the businesses of the Media Group and Solutions Group and the results of these businesses are presented as discontinued operations in the consolidated financial statements of HKTGH. The results of continuing operations as presented in the consolidated financial statements of HKTGH included the results of the business segments of telecommunications services, mobile services and other businesses of the Group.

On 20 December 2013, HKT entered into a share purchase agreement with CSL Holdings, Telstra Holdings (Bermuda) No. 2 Limited ("**Telstra Bermuda**"), Telstra Corporation Limited, Upper Start Holdings Limited ("**Upper Start**") and New World Development Company Limited, whereby HKT has conditionally agreed to acquire the entire issued share capital of CSL Holdings from Telstra Bermuda and Upper Start, for the purchase price (excluding the estimated net cash amount) of U.S.$2,425 million (equivalent to approximately HK$18,867 million), subject to certain price adjustments (being the estimated net cash amount and post completion adjustment to the base purchase price calculated in accordance with the methodology as set out in the share purchase agreement).

As a condition for approval of the acquisition of CSL Holdings, HKT agreed to return to the Government an additional 2 x 5 MHz of 3G spectrum ("**3G Spectrum**") over and above the 2 x 10 MHz that the Government proposed to take back from the Group and the CSL Group when the spectrum licenses expire in 2016, and the Group has not participated in the bidding for the 3G Spectrum at the 3G Spectrum auction held in December 2014. At the same time, the Group continues to possess adequate spectrum resources including 2 x 15 MHz of 3G Spectrum, the renewal of which the Group intends to fund with additional debt financing in 2016. The Group would benefit from respective leasing and renewal costs savings, and at the same time continue to possess adequate spectrum resources and provide undisrupted operations after returning the 3G Spectrum.

Following the completion of the acquisition of CSL Holdings on 14 May 2014, HKT has reorganised the business of the CSL Group by combining and integrating it with the Group's existing mobile telecommunications business under its mobile group of companies in order to unlock and make optimal use of available operational synergies and efficiencies.

On 13 June 2014, the HKT Trust and HKT announced a proposed rights issue (the "**Rights Issue**") which involved the issue of 1,155,011,542 new share stapled units (the "**Rights Share Stapled Units**") at a subscription price of HK$6.84 per Rights Share Stapled Unit on the basis of 18 Rights Share Stapled Units for every 100 share stapled units in issue on 27 June 2014. The Rights Issue was completed in July 2014, and a total of 1,155,011,542 new share stapled units were allotted and issued pursuant to the Rights Issue.

At the end of July 2014, the refinancing of the acquisition of CSL Holdings was wholly completed with the conclusion of approximately HK$11,700 million in 5-year banking facilities and the successful closing of the Rights Issue in July 2014 which raised approximately HK$7,900 million in gross proceeds.

The Group had approximately 19,400 employees as at 31 December 2015 in over 45 countries and cities. About 57% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States.

Telecommunications business

The telecommunications business of the Group comprises three business segments: telecommunications services, mobile services and other businesses, as further described below.

Telecommunications services

The telecommunications services segment provides four core areas of telecommunications products and services, being local telephony services, local data and broadband services, international telecommunications services and other services.

- **Local telephony services**

The Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. The Group has a leadership position in the fixed-line telecommunications market in Hong Kong. The Group's local telephony services had approximately 2.65 million exchange lines in service as at 31 December 2015.

- **Local data and broadband services**

The Group's local data and broadband services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications. The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services. As of January 2016, the NETVIGATOR broadband 1.5Mbps service reached approximately 98% of all households in Hong Kong and 1,000 Mbps FTTH services are available for delivery within four days of receiving a service order to approximately 82.4% of homes. There were approximately 1.57 million broadband access lines as at 31 December 2015. Of those broadband access lines, 568,000 were FTTH subscribers.

- **International telecommunications services**

The Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fibre and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Group's network currently provides connectivity in approximately 3,000 cities in 140 countries and serves enterprises and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totalled 675 million minutes for the year ended 31 December 2015. The restructuring of Reach Ltd., (a joint venture company which is 50% owned by Telstra Corporation Limited and 50% owned by HKT, which holds certain international connectivity assets and provides services primarily to its two shareholders) was completed in February 2011, and added to the Group's international telecommunications services infrastructure. Following the restructuring, through the direct ownership of certain infrastructure assets such as fibres on the REACH North Asia Loop submarine cable system, the Group has increased its global network capabilities and coverage.

- **Other services**

Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and Teleservices. In addition, the Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

Mobile services

Following the successful acquisition of CSL Holdings, HKT has moved quickly to unveil a new brand and its three-brand strategy to meet the communication needs of all mobile users in Hong Kong. The Group currently offers 2G, 3G, 4G LTE and CDMA mobile services marketed under the "1010", "csl." and "Sun Mobile" brands and Wi-Fi services marketed under the "csl. Wi-Fi" brand. The Group has invested significantly in expanding its 3G network since 2005 and launched its 4G service in 2012. As at 31 December 2015, the Group had approximately 4.56 million customers, of which approximately 3.13 million were post-paid customers. The Group provides support for a broad spectrum of Smartphones and has implemented tariff plans to drive continued growth of its mobile service customer base and hence mobile data revenue. Mobile data revenue accounted for 71% of mobile services revenue in 2015. The Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

Other businesses

The other businesses of the Group previously comprised the ZhongYing JV, which provided network integration and related services to telecommunications operators in the PRC. On 14 October 2014, a subsidiary of the Group entered into a sale and purchase agreement pursuant to which the subsidiary agreed to dispose of its entire 38.2% effective equity interests in the ZhongYing JV to a third party. The sale was completed in December 2014. The other businesses of the Group comprise Relish Networks plc, which was acquired in April 2015. Relish Networks plc provides design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom.

COMPETITIVE STRENGTHS

The Group believes that its competitive strengths are as follows:

The leading telecommunications service provider in Hong Kong with a stable business that generates strong recurring cash flow

The Group is a leading integrated telecommunications service provider in Hong Kong with extensive network coverage. The Group's telecommunications network is the most extensive digital network in Hong Kong by total number of exchange lines base. As at 31 December 2015, the Group had in service approximately 2.65 million exchange lines and approximately 1.57 million total broadband access lines.

This leading position is attributed to the Group's long and established track record for high quality customer service, extensive coverage and advanced technology offerings to customers in Hong Kong. As of January 2016, the Group's NETVIGATOR broadband 1.5Mbps service reached approximately 98% of all households in Hong Kong and 1,000Mbps FTTH services are available for delivery within four days of receiving a service order to approximately 82.4% of homes. Such services continue to attract new customers and existing customers for service upgrade. The growing fibre customer base of the Group continues to create future upgrade opportunities to higher speed, higher price service plans.

In addition, the existing businesses with an extensive network of approximately 2.65 million exchange lines and approximately 1.57 million broadband lines generate a very stable cash flow stream for the Group, which is reflected in its stable revenue and EBITDA margins.

With its leading position in Hong Kong, the Group believes that it is well-positioned to leverage its scale and deploy new services across Hong Kong quickly, giving customers access to a wide selection of telecommunications and broadband service offerings.

Attractive growth prospects for the Group's mobile and broadband services

The Group believes that it has long-term growth prospects given the strong growth and the continuous development expected of the mobile telecommunications and broadband market. Consumers today are not only seeking basic connectivity at home or the office for e-mail and Internet surfing, but are also seeking faster Internet access speeds and uninterrupted mobile data connectivity. The shift in Internet usage is brought about by the increased data usage requirements of Internet based services such as music or video streaming as well as websites and online applications that deliver rich high-definition content. Increasing affordability and availability of handheld portable devices, such as Smartphones and tablets and growing consumer confidence in accessing online services via mobile devices have also led to an increase in mobile subscribers and data usage, and increased data traffic being carried over the Group's network.

The Group believes that it is well positioned to capture the strong growth in the mobile and broadband data markets by providing increasingly high speed and stable mobile connectivity to meet customer needs. The Group currently offers an extensive selection of speeds and mobility options to its customers. Specifically, it offers ADSL, VDSL, and FTTH technologies to support speeds ranging from 1.5 Mbps to over 10,000 Mbps. As at 31 December 2015, there were 568,000 FTTH subscribers which represented an increase of 13% year-on-year. In 2012, the Group launched its 4G LTE network to deliver higher-speed mobile data connectivity to its users and capture the strong growth in the mobile data market. The Group upgraded its 4G network from the network specification of 100Mbps to 150Mbps using spectrum acquired from public auction in March 2013. In addition to the 2600MHz spectrum, the Group has re-farmed the 1800MHz spectrum for LTE to provide a powerful dual band network with comprehensive indoor and outdoor coverage. In December 2014, the Group became Hong Kong's first mobile operator to upgrade its mobile network to 4G LTE-Advanced ("**LTE-A**") at 300Mbps and it is supported by all major Smartphone vendors with close to 40 LTE-A models available in the market. In April 2015, the Group demonstrated the world's first IP-RAN based LTE-A 450Mbps solution (3 FDD Carrier Aggregation) in Hong Kong by combining disparate blocks of 20MHz spectrum from different sites. The Group expects to provide its customers with this service once compatible Smartphones become available in 2016. This will continue to bring improved Internet experience to mobile users, enabling faster downloads, enhanced audio and video streaming, and higher quality video conferencing.

In November 2015, the Group demonstrated the world's first 4.5G (4.5th generation) 1 Gbps mobile network at the Global Mobile Broadband Forum 2015 in Hong Kong, continuing to lead the evolution of the 4G LTE standard. With the introduction of the 4.5G LTE technology, operators will be able to improve user experience and support the proliferation of machine-to-machine ("**M2M**") communications and the Internet of Things, as well as new mobile Internet applications such as those using virtual reality glasses and drone technology.

The Group's commitment to continuous innovation has brought to its 4G customers the first Voice over Long Term Evolution ("**VoLTE**") service in Hong Kong - in fact also the world's first commercially available VoLTE service when it was launched in May 2014 jointly with ICT solution providers. VoLTE users can enjoy faster voice call set-up and clearer sound, better video call quality, and instant switching between voice and video calls.

Wi-Fi "hotspot" coverage throughout Hong Kong is now extended to coffee shops, restaurants, payphone kiosks, convenience stores, malls, major MTR stations, the Hong Kong International Airport, Airport Express stations and trains, universities and other institutions of tertiary education. In 2008, the Group became the first Wi-Fi provider in Asia to offer a public service on trains by providing connectivity on 11 Airport Express trains. In July 2013, the Group launched Hong Kong's first 1,000 Mbps Wi-Fi service based on the 802.11ac technology, with a transmission speed approximately three times faster than the previous technology. As of December 2015, the Group had over 16,000 Wi-Fi hotspots spread across Hong Kong (including exclusive MTR coverage).

The Group has been actively developing Near Field Communication ("**NFC**")-based mobile payment services with the Octopus Cards and major banks in Hong Kong. The Group is currently one of several Asian telecommunications operators which have joined together to form the Asia NFC Alliance, which aims to extend NFC services beyond national borders so that users can have a seamless experience in mobile payment, hotel booking and other applications while traveling. In July 2015, the Group launched a mobile payment service, Tap & Go, which enables customers to use their NFC Android mobile phones to make payments at more than three million MasterCard® *PayPass*™ merchant locations worldwide, conduct online purchases or peer-to-peer money transfers and set PIN protection and on/off for payment by card or online for maximum security. In December 2015, the Group broadened the availability of Tap & Go to mobile users of iPhone and other non-NFC Android phones through the introduction of a physical Tap & Go card.

The Group expects to continue increasing its mobile and broadband subscriber base through offering these new high-speed and mobile data services and improving ARPUs through further up-selling of higher speed services to existing subscribers.

Comprehensive delivery platforms

The Group offers services that can be delivered and accessed through four complementary delivery platforms: fixed-line, broadband, mobile and IPTV. The symbiotic relationship between the Group and the PCCW Group allows the Group to capture the synergies of the inter-play between the four services.

The Group believes that its quadruple-play delivery platforms help increase customer stickiness and effectively enable the Group to retain its subscriber base and be highly resilient to competition. The Group believes that it is also less susceptible to pricing pressures across its businesses due to its quadruple-play delivery platforms.

Strong brand recognition and a reputation for quality and reliability

The Group believes that its products and services have a reputation for high quality and reliability and a high level of brand recognition among its customers. The Group's extensive set of high-quality services, its strong brands and customer affinity across its telecommunications business allow the Group to achieve continued growth. The Group's investment in advanced network services and products have supported Hong Kong's development as one of the leading telecommunications centres in Asia. Quality and reliability are especially important to multinational corporations, banks and other corporate customers needing the Group's services to support their critical operations.

Extensive fibre-rich telecommunications network and infrastructure

The Group's extensive fibre-rich telecommunications network and associated infrastructure provide a robust platform from which the Group delivers its comprehensive portfolio of products and services to customers. Based on the demands of its customers, the Group also continually invests in new or emerging technologies and in upgrading its existing technologies to differentiate its services and product offerings from those of its competitors. This allows the Group to provide high quality and extensive network coverage as well as introduce innovative products in its core markets in Hong Kong.

The Group provides access to its broadband network at multiple speeds of 1.5 Mbps to over 10,000 Mbps using multiple technologies such as ADSL, VDSL and FTTH. The Group has the most extensive fibre network in Hong Kong with fibre infrastructure installed within buildings (FTTB-ready) accounting for over 87% of all households in Hong Kong as at 31 December 2015. In the first half of 2015, the Group was the first operator in Hong Kong to introduce the 10Gbps passive optical network ("**PON**") fibre broadband service and this was commercially launched in the third quarter of 2015. All premises that are within the Group's FTTH coverage will have the opportunity to enjoy this ultra-speed network because of the investments that the Group has made in the past in building a dense, fibre-rich network to handle both technological evolutions and high levels of market demands. High-speed fibre connection and technology advancement are reshaping the lifestyle of Hong Kong people. Services such as the Smart Living service of the Group uses the latest technologies to enhance the quality of daily life by providing home automation and networking services as well as end-to-end smart home creation solutions tailor-made by technical consultants and interior designers.

The Group's superior mobile network is premised currently on its wide network coverage, abundant spectrum and extensive fibre backhaul. The unparalleled fibre asset in Hong Kong enables the Group to provide high quality and super-fast fixed and mobile broadband services to customers of the Group. Since the acquisition of CSL Holdings, one of the Group's priorities has been the integration of the Group's two mobile networks to release the synergies due to the acquisition and to enhance customers' mobile experience. Integration of the radio cell sites was completed in December 2015 as planned, while the integration of the core mobile network has commenced and is expected to be completed in 2016, enabling the Group to offer even more advanced services and roaming coverage. As at 31 December 2015, the Group's network was optimised to over 3,100 cell sites with enhanced coverage, while more than 1,500 redundant cell sites have been closed down resulting in significant rental savings in 2015.

The Group's telecommunications network currently includes 2G, 3G, 4G LTE and CDMA mobile networks. In January 2009, the Group, through a jointly controlled company, succeeded in obtaining a licence from OFCA to operate within the 2500-2600 MHz spectrum band for the purposes of providing high speed 4G data services, and such services were commercially launched in April 2012. After the acquisition of CSL Holdings, the Group operates the widest range of mobile spectrum in Hong Kong to meet the data needs of its customers. The combined networks of the Group and the CSL Group enable customers to enjoy the best possible coverage both indoors and outdoors. Furthermore, the Group's extensive fibre network means 1,000Mbps optical-fibre backhaul will serve the base stations of the CSL Group, and with the opening up of the extensive Wi-Fi network of the Group, customers of both networks can enjoy ultra-fast mobile services all around Hong Kong and even throughout the MTR. As of December 2015, the Group had over 16,000 Wi-Fi hotspots spread across Hong Kong (including exclusive MTR coverage), which make auto-switching between 4G/3G and Wi-Fi networks more seamless and effortless, enabling customers to have greater ease in accessing the Internet at any time and also to enjoy attractive content on their mobile devices made available through the Group's quadruple-play delivery platforms.

The Group's extensive network and associated infrastructure will continue to enable the Group to introduce high speed data products and services to meet the growing demand from residential and commercial customers in Hong Kong and global customers.

Experienced management team

The Group's management team has a track record in both the development and delivery of telecommunications services, as well as in the execution of its business strategies. The management team has successfully maintained the Group's market share and expanded its offering of products and services in one of Asia's most deregulated telecommunications markets. The Group believes that the synergies created by the management experience and technical expertise of the management team and the Group's advanced technology should enable the Group to move quickly to identify, adopt, acquire, develop and exploit emerging technologies. The Group also believes that the management and operational expertise of the management team will make the Group a preferred partner for other telecommunications companies in Asia and elsewhere.

KEY STRATEGIES

The Group, in conjunction with its listed parent PCCW, offers a unique integrated quadruple-play service with market leading positions in the fixed-line, broadband Internet, mobile communications and pay-TV businesses. The Group's strategy for generating and preserving unitholder 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 its people to continuously improve the quality of service that the Group provides to its customers. The Group generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications and ancillary businesses.

The Group believes that the outlook of the telecommunications industry in Hong Kong is positive and therefore will provide the Group with the opportunity to increase the profitability of the telecommunications business through a combination of the following strategies:

Increase revenue from the Group's fixed-line, broadband and mobile telecommunications services

The Group intends to capitalise on its leading telecommunications network infrastructure and unique combination of "quadruple-play" delivery platforms to provide customers a wide, appealing and innovative range of services, to increase its ARPU and market shares for broadband, fixed-line and mobile services as well as to increase efficiencies in its overall field and operations workforce. The Group intends to enhance sales and marketing efforts to retain its subscriber base, promote service plan upgrades and sign up new customers. The Group also intends to provide customers with attractive, high quality, customisable packages and offerings to increase overall demand.

Building on the success of its transformation strategy implemented since 2003, which transformed the Group from a pure telecommunications service provider to one which provides many forms of content, applications and interactive transactional services, the Group will continue to actively market its innovative and appealing services such as the eye service, with the objective of integrating the eye service into the daily lives of Hong Kong residents. In the second half of 2013, the Group launched the latest generation of eye service, eye3 Smart Communications, which is coupled with a Samsung tablet. Customers can bring the tablet outdoors to enjoy its various functions, in addition to accessing eye3's full range of infotainment at home. Recently, the Group upgraded the device with the higher-speed Tab 4 model and strengthened the content such as educational content for children, which consistently sits at the top part of the popularity chart. The user interface of the tablet has also been modified to allow more customisation by the user.

The Group also continues to upgrade existing NETVIGATOR customers to higher speed services. Consumers today not only seek basic Internet connectivity, but also seek higher access speeds and uninterrupted mobile data connectivity to enjoy a wide range of Internet-based services. The proliferation of the use of Internet-based services through handheld portable devices has also led to an increase in mobile subscribers and data usage, and increased data traffic carried over the Group's network. As such, the Group will seek to continue to capture the strong growth in the mobile and broadband data markets by providing increasingly high speed and stable mobile connectivity to meet customer needs.

In October 2013, the Group offers a series of industry specific solutions to promote information and communications technologies ("**ICT**") adoption among small- and medium-sized enterprises ("**SMEs**") in Hong Kong. There are about 300,000 SMEs in Hong Kong but many do not currently enjoy the full benefits of information and communications technologies due to high costs and lack of IT manpower and know-how. Recognising substantial market potential, the Group has been launching a series of industry specific solutions in November 2013 to promote ICT adoption among SMEs, riding on its super-fast fibre network and 4G mobile network. Since the launch of these solutions in late 2013, there has been encouraging take-up in the retail, catering, trading and manufacturing, and professional services industries on which the Group has specifically focused. In 2015, there was a notable increase in the take-up of cloud and other ICT solutions provided by the Group, especially among the SMEs.

The Group intends to expand its cooperation with overseas operators to enhance its connectivity capability and actively expanded its MPLS and Ethernet networks with interconnection agreements and other forms of cooperation with partners in other parts of the world including the rapidly growing Middle East market. The Group is implementing the next generation of software-defined network capabilities, enabling customers to have a web and application programme interface ("**API**") based self-service window for addressing their data transport, process and storage needs through a much more automated process.

Broaden the range of products and services offered

The Group plans to continue to innovate and broaden its existing high quality product offering by focusing on data-related products and value-added services with the objective of increasing customer loyalty and stickiness and increasing ARPU.

The Group intends to expand its data services offerings through providing plans with increased speed and mobility. This includes:

- expanding the coverage of its FTTH service supporting speeds of 30 Mbps to over 10,000 Mbps across Hong Kong, thus providing customers with multiple technologies and speeds to meet their broadband access needs as well as to facilitate the migration of standard definition television to high definition, 3D and a true 4K ultra high definition television;

- delivering content to various devices such as tablets and Smartphones, continuing to develop client applications for user interface which provide enhanced navigation, search and recommendation functionality, enhancing functionality of devices such as tablets to be more useful and complementary to the television viewing experience, developing systems to streamline the provisioning, delivery and management of the multimedia services to better serve customers with multi-devices as well as to enhance the operations and management of the services provided by the Group;

- expanding home networking and digital living for its customers. In this regard, the Group launched the Smart Living home automation solution in 2012. The service enables easy control of multiple home appliances ranging from lighting, air conditioning, home entertainment and home surveillance systems to property lobby access and car gate control using a customised remote control or even a Smartphone or a tablet when the user is not at home. The Group will continue to strengthen its relationships with property developers and make more sophisticated applications available; and

- introducing the first Voice over Long Term Evolution ("**VoLTE**") service in Hong Kong in May 2014 so that users can enjoy faster voice call set-up and clearer sound, better video call quality and instant switching between voice and video calls; the launch of Octopus SIM and cooperation with major bank credit cards to enable customers to enjoy convenient NFC-based Octopus Card payment service; and the launch of the Tap & Go mobile payment service in July 2015.

The Group has also leveraged its network and cloud capabilities to broaden the scope of service offerings. In the third quarter of 2011, the Group launched a new consumer cloud service known as "uHub". A user may keep photos, music, videos and documents in the uHub and retrieve them anytime using a variety of devices including computers, Smartphones and tablets. In July 2013, the Group launched a carrier-grade cloud service, HKT Enterprise Cloud, providing connected, secure and world-class services to enterprise customers, enabling them to effectively deploy their IT resources with advanced system architecture and high security standards in accordance with company and industry compliance requirements. The service provides a resource pool that enables customers to manage virtual infrastructure such as CPU, network, security and storage.

eSmartHealth was introduced in November 2011 as Hong Kong's first health data cloud management service. Specifically, it enables users to upload, store and access their health data anytime via cloud computing technology. In September 2013, the Group launched a weight management service integrated with cloud technology jointly with Hong Kong and Tsuen Wan Adventist Hospital. The eSmartHealth x Adventist NEWSTART weight management solutions facilitate body composition measurement, help manage health data, and enable authorised persons and healthcare professionals to monitor health data via a cloud platform to provide efficient and effective follow-up service to users.

In October 2012, the Group launched HKT education eLearning Solutions platform, Hong Kong's first integrated, end-to-end cloud-based education service for primary schools, which is underpinned by fibre-to-the-school broadband and Wi-Fi networks provided by the Group.

The Group has commenced a series of initiatives in the education field. For instance, NETVIGATOR offers affordable service plans to more than 200,000 eligible families under the Government's Internet Learning Support Programme, "i Learn at home", in the 2013/14 school year. The programme enables primary and secondary students from low-income families to benefit from web-based learning at home. As the sole broadband provider appointed by the Government, the Group works closely with The Boys' & Girls' Clubs Association of Hong Kong and The Hong Kong Council of Social Service, which are commissioned to implement the programme.

In 2013, the Group launched a High-Definition ("**HD**") video calling service for enterprise customers and carrier partners to capitalise on the rapid HD communications growth. In May 2014, the Group opened a Global HD Video Communication Centre at the Telecom House in Hong Kong, where a full range of innovative HD calling, conferencing and collaboration services are available in telepresence rooms and on multiple devices. In October 2014, the Group entered into a high definition video conferencing ("**HDVC**") interconnect agreement with Tata Communications to interconnect the two groups' IPX and MPLS networks via a Network-to-Network Interface, allowing both groups to offer global enterprise customers enhanced network data services and the highest quality HD video conferencing capability. Such bilateral HDVC interconnect agreement is the first of its kind in the Asia Pacific region.

In December 2014, the Group inaugurated a new unified loyalty and rewards programme across all its services, The Club, providing its members with a variety of exclusive services and benefits.

In September 2015, the Group via its international operating division PCCW Global, launched ONTAPtv.com, an Internet-based Video on Demand ("**VoD**") entertainment service for South Africa, with a selection of *à la carte* content packages to suit the entertainment needs of the local markets.

Maintain the Group's leading network infrastructure

The Group will continue to invest and to add value to its broad array of connectivity services, to improve the delivery of its own content and applications and those of its partners and to maintain its leading network infrastructure to provide customers with extensive coverage and a broad range of high-quality telecommunications services. The Group will also continue to adopt a demand-generated investment strategy to develop its networks and systems so as to maintain its premium brand positioning and to maintain pricing. The Group intends to continue to:

- fully utilise its state-of-the-art IP-based network infrastructure, which was recently upgraded, and the recently integrated 2G, 3G and 4G networks;
- leverage on extensive fixed broadband and Wi-Fi infrastructure to offload overall data loads on the mobile network;
- expand higher-speed broadband services to more homes and businesses through the rollout of the Group's optical network and existing global backbone;
- provide multiple access technologies by further increasing the number of Wi-Fi hotspots to make auto-switching between 4G/3G and Wi-Fi networks anywhere in Hong Kong seamless and effortless;
- leverage on a very large amount of radio spectrum after the acquisition of CSL Holdings, the Group has completed the integration of radio cell sites in December 2015 and will continue to integrate the core mobile network in order to improve the network service quality and to build a technically superior network and derive a competitive edge in the market — particularly with support from over 1,000Mbps optical-fibre backhaul and extensive Wi-Fi network; and

- invest in security, performance monitoring and preventative maintenance management network with an aim to achieve world class key performance indicators.

Focus on cost control and efficiency measures

The Group will continue to focus on reducing costs, optimising efficiency and increasing productivity across its businesses. For example, the Group will continue to look for areas where cost efficiencies can be gained, such as through the restructuring of the majority of Reach Ltd.'s operations to increase operational efficiencies in 2011, engaging in dialogue with its suppliers to revisit maintenance contracts to reduce costs and reorganising the business of the CSL Group to improve operating efficiency.

BUSINESS SEGMENTS

The segment revenue and EBITDA for each of the Group's business segments for the years ended 31 December 2014 and 2015 were as follows:

Segments Revenue and EBITDA

	For the year ended 31 December		
	2014	**2015**	**better/ (worse)**
	(HK$ million)		
Revenue			
Telecommunications Services ("**TSS**")	19,913	20,877	5%
Mobile	8,950	14,317	60%
Other Businesses	564	207	(63%)
Eliminations	(604)	(672)	(11%)
Total	28,823	34,729	20%
Add/less: if any	—	—	—
HKTGH Consolidated	28,823	34,729	20%
EBITDA			
TSS	7,362	7,507	2%
Mobile	3,147	5,030	60%
Other Businesses	(267)	(437)	(64%)
	10,242	12,100	18%
Add: Administration costs for HKT	16	10	38%
HKTGH Consolidated	10,258	12,110	18%

Segments Revenue and EBITDA

	For the year ended 31 December		
	2014	2015	better/ (worse)
	(HK$ million)		
Telecommunications Services ("TSS")			
Local Telephony Services	3,483	3,475	0%
Local Data Services	6,726	7,004	4%
International Telecommunications Services	7,003	7,413	6%
Other Services	2,701	2,985	11%
TSS Revenue	19,913	20,877	5%
Cost of Sales	(8,939)	(9,472)	(6%)
Operating costs before depreciation/amortisation	(3,612)	(3,898)	(8%)
TSS EBITDA	7,362	7,507	2%
EBITDA Margin	37%	36%	

TSS

TSS revenue for the year ended 31 December 2015 increased by 5% to HK$20,877 million and EBITDA for the year increased by 2% to HK$7,507 million representing an EBITDA margin of 36%.

Local Telephony Services. Local telephony services revenue remained steady at HK$3,475 million for the year ended 31 December 2015, as compared to HK$3,483 million a year ago. Total fixed lines in service at the end of December 2015 remained stable at 2.65 million.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 4% to HK$7,004 million for the year ended 31 December 2015. The broadband network business maintained its growth momentum despite intense competition and reported a solid revenue growth of 5% during the year. This expansion in revenue was fuelled by continued customer upgrades to our higher speed plans and supported by the strong content and value proposition of PCCW's now TV service. At the end of December 2015, there were 568,000 FTTH subscribers, which represented an increase of 13% from a year ago. Local data revenue from the enterprise sector increased by 3% during the year due to the increased usage of customised projects such as cross border connectivity. This increase occurred despite persistent pricing pressure and slowing enterprise spending amid the weak economic conditions in Hong Kong.

International Telecommunications Services. International telecommunications services revenue for the year ended 31 December 2015 increased by 6% to HK$7,413 million, marking continuous growth for the sixth consecutive year. This growth of an enlarged revenue base in 2015 reflected the continued strong demand for data connectivity services from both international carriers and enterprise customers and the upselling of additional value added services such as cyber security solutions and unified cloud-based communication services to these customers.

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 31 December 2015 increased by 11% to HK$2,985 million on the back of growth in the Teleservices business and the completion of significant networking projects for commercial customers during the year.

SEGMENTS REVENUE AND EBITDA

	For the year ended 31 December		
	2014	2015	better/ (worse)
	(HK$ million)		
Mobile Services	6,898	9,219	34%
Handset Sales	2,052	5,098	148%
Mobile Revenue	8,950	14,317	60%
Mobile Services	3,087	4,970	61%
Handset Sales	60	60	0%
Mobile EBITDA	3,147	5,030	60%
Mobile EBITDA margin	35%	35%	
Mobile Services EBITDA margin	45%	54%	

Mobile Business

The Mobile business, which included the full 12-month contribution from the acquired CSL business, registered a 60% increase in total revenue to HK$14,317 million for the year ended 31 December 2015. The Mobile revenue represented 41% of total HKT revenues for the year ended 31 December 2015, compared to 31% a year ago.

Mobile services revenue for the year ended 31 December 2015 increased by 34% to HK$9,219 million from HK$6,898 million a year ago. The overall growth was moderated by an enlarged proportion of SIM-only plan customers and a gradual decline in IDD and roaming revenue during the year. Mobile data revenue soared by 40% and accounted for 71% of mobile services revenue for the year, while IDD and roaming revenue accounted for 17% of mobile services revenue.

Revenue from handset sales of HK$5,098 million was recorded during the year, as compared to HK$2,052 million a year ago. HKT excels in our offering of a well diversified portfolio of handsets and our extensive retail network of strategically located shops throughout Hong Kong.

The post-paid exit average revenue per user ("**ARPU**") increased by 5% to HK$230 as at the end of December 2015 from HK$219 a year ago. As at 31 December 2015, the total mobile customer base was 4,558,000, of which 3,127,000 were post-paid customers. Of these post-paid customers, approximately 80% were smart device users. The churn rate for post-paid customers improved to 1.4% in 2015, compared to 1.5% a year ago.

EBITDA for the year increased by 60% to HK$5,030 million representing a margin of 35%. The EBITDA margin for mobile services improved significantly from 45% to 54% in one year, having benefited from the accelerated achievement of cost synergies from the integration of CSL. Integration of the radio cell sites was completed in December 2015, while the integration of the core mobile network has commenced and is expected to be completed in 2016.

Other Businesses

Revenue from Other Businesses was HK$207 million for the year ended 31 December 2015, as compared to HK$564 million a year ago. The decrease in revenue was mainly due to the disposal of the entire 38.2% effective equity interest in the ZhongYing JV and partly offset by the revenue recognised from Relish Networks plc which was acquired in April 2015. Relish Networks plc provides design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom.

Eliminations

Eliminations were HK$672 million for the year ended 31 December 2015, as compared to HK$604 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed amongst the HKT's business units.

Cost of Sales

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

General and Administrative Expenses

During the year, operating costs before depreciation, amortisation, and (loss)/gain on disposal of property, plant and equipment, net, ("**operating costs**") increased by 9% to HK$7,080 million as a result of the full-year impact of CSL as well as to support the business growth in the TSS and Mobile businesses and investments in new business initiatives such as Tap & Go mobile payment service and The Club loyalty and rewards programme. Operating costs to revenue ratio for the TSS business increased slightly to 19% from 18% a year ago, while operating costs to revenue ratio for the Mobile business significantly improved to 21% from 31% a year ago as a result of the cost synergies achieved from the successful CSL integration.

Upon completion of the CSL acquisition in mid 2014, certain intangible assets attributable to the CSL mobile business have been recognised by the Group. The full-year impact of this as well as the increased customer acquisition costs driven by the growth in Mobile services of the Group as a whole resulted in the corresponding amortisation charges for the year ended 31 December 2015 increasing as compared with 2014. On the other hand, during the network integration after the CSL acquisition, the useful lives of certain network assets were reassessed during 2014 which resulted in the recognition of one-off accelerated depreciation charges in that year. The combination of these factors led to total depreciation and amortisation expenses increasing slightly by 5% to HK$6,202 million for the year ended 31 December 2015, from HK$5,886 million in 2014.

General and administrative expenses, therefore, increased by 7% to HK$13,277 million for the year ended 31 December 2015.

EBITDA

As a result of the steady performance in the TSS business and the contribution from the enlarged Mobile business, overall EBITDA increased by 18% to HK$12,110 million for the year ended 31 December 2015. The EBITDA margin remained relatively stable at 35% for the year.

SALES AND MARKETING

The Group's sales and marketing function is carried out by: a Hong Kong consumer sales and marketing group, a Hong Kong commercial sales and marketing group, and a global sales and marketing group. The three groups are respectively dedicated to the local consumer, commercial and global customer groups.

Various customer relationship management ("**CRM**") systems and databases are employed by the Group's sales and marketing function to market the telecommunications business services across its different customer groups, and to market new products and services to different customer groups.

The Group considers customer service a key to success. By improving overall customer service standards, the Group strives to deliver first-class service quality to provide a positive customer experience. The Group believes that excellent customer service is a foundation on which it can further grow its business.

To capture the higher-end customers, in 2012 the Group set up a HKT Premier team of relationship specialists and customer support and service staff to serve their most exacting requirements — not only of broadband service, but also other quadruple-play offerings of the Group. The HKT Premier team is tasked to accommodate service requests from customers who expect only the highest service standards. This segmentation is common in many successful corporations in various industries such as airline and banking.

In December 2014, HKT inaugurated a new unified loyalty and rewards programme across all its services, The Club, providing its members with a variety of exclusive services and benefits. Throughout 2015, The Club has hosted more than 30 indoor and outdoor events of music, movie, art, culture, fashion, sports, travel, dining and leisure for its members and their families. The Club has also partnered with different merchants and event organisers to offer some 100 special promotional offers to its members. As at February 2016, more than 2.8 million eligible The Club memberships have been created.

COMPETITION

The implementation of the Hong Kong Government's policy to liberalise the telecommunications industry has resulted in intense competition in the markets for local and international services.

Competition from providers of fixed-line services and resellers, including those whose operations may be augmented through strategic alliances with global and/or foreign strategic partners, has materially increased in the past several years. The markets for local telecommunications services and IDD services originating in Hong Kong is expected to remain extremely competitive. In addition, mobile telecommunications prices have declined sufficiently so that customers are now more likely to substitute residential local exchange services for mobile telecommunications services. This has affected and continues to affect the Group's market position in the telecommunications market in Hong Kong.

The Group is required in certain situations to provide telecommunications services (including interconnection) to service providers that compete directly with its operations. In Hong Kong, the main competitors of the Group are Wharf T&T Limited, i-CABLE Communications Limited, China Mobile (Hong Kong) Limited, Hong Kong Broadband Network Limited, SmarTone Mobile Communications Limited, Hutchison Global Communications Holdings Limited, Hutchison Telephone Company Limited and New World Telecommunications Limited.

The Group competes effectively in all of its lines of business by providing:

- unique combination of "quadruple-play" delivery platforms through its established telecommunications infrastructure, including an increasing number of Fibre to the Building and Fibre to the Home solutions;

- innovative and broad range of product offerings focused on data related products and value-added services for its customers;

- dedicated sales units to address the needs of its global business, Hong Kong corporate and consumer customer market segments; and

- leadership in overall service quality within the telecommunications market.

The Group's established telecommunications infrastructure enables it to be price competitive across all of its lines of business. The Group continues to strive to provide customers with best quality and price competitive offerings and services.

REGULATION

The Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) and the Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong) provide the legislative framework for the provision of telecommunications services and facilities and regulation of the broadcasting industry in Hong Kong.

The telecommunications and broadcasting industries in Hong Kong were previously regulated by OFTA and the BA, which were merged into a single entity, the CA as from 1 April 2012. The CA will continue to regulate the industries under the existing laws, licences, regulations and policies. The existing Telecommunications Ordinance and Broadcasting Ordinance have not been changed as to substance. Telecommunications and broadcasting service providers will continue to operate under their existing licences granted by OFTA and the BA.

FINANCING

The Group's outstanding external debt as at 31 December 2015 was HK$36,315 million (including short-term debt of HK$3,879 million) and its net debt, which is calculated as outstanding external debt net of cash and cash equivalents, was HK$32,572 million.

Set forth below are the aggregate amounts, as at 31 December 2015, of the Group's future debt service obligations under its borrowings (including total estimated interest payable under the remaining term of the borrowings).

	(HK$ million)
Principal repayable after one year	
over one year, but not exceeding two years	3,544
over two years, but not exceeding five years	17,386
over five years	11,506
	32,436
Sum of estimated future interest as at 31 December 2015[1]	7,059
	39,495

Note:

(1) For floating rate debt, this represents total future interest payable estimated based on the outstanding principal amounts and their respective interest rate fixed as at 31 December 2015.

For fixed rate debt, this represents total future interest payable estimated based on the outstanding principal amounts and their respective committed interest rate as at 31 December 2015.

The major borrowings are summarised as follows:

(i) *Existing loan facilities of the Group*

Hong Kong Telecommunications (HKT) Limited entered into various bilateral revolving and term loan facilities with a group of banks for general corporate purposes. These facilities are unsecured and are guaranteed by HKTGH.

As at 25 February 2016, the aggregate amount of committed bank loan facilities was HK$29,341 million. The principal amounts outstanding under these facilities were HK$25,044 million and the amounts undrawn were HK$4,297 million.

(ii) *U.S.$500 million 5.25% guaranteed notes due 2015*

On 20 July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 5.25% guaranteed notes due 2015 which were listed on the SGX-ST. The notes were irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited, HKTGH and Hong Kong Telecommunications (HKT) Limited and ranked *pari passu* with all other outstanding unsecured and unsubordinated obligations of PCCW-HKT Telephone Limited, HKTGH and Hong Kong Telecommunications (HKT) Limited. The notes were fully redeemed upon maturity in July 2015 and were delisted from the SGX-ST.

(iii) *U.S.$500 million 4.25% guaranteed notes due 2016*

On 24 August 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 4.25% guaranteed notes due 2016, which were listed on the SGX-ST. The notes were irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and ranked *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited. The notes were fully redeemed upon maturity in February 2016 and were delisted from the SGX-ST.

(iv) *U.S.$500 million 3.75% guaranteed notes due 2023*

On 8 March 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 3.75% guaranteed notes due 2023, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(v) *U.S.$300 million zero coupon guaranteed notes due 2030*

On 15 January 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange (previously known as the GreTai Securities Market) in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(vi) *U.S.$500 million 3.625% guaranteed notes due 2025*

On 2 April 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 3.625% guaranteed notes due 2025, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(vii) *€200 million 1.65% guaranteed notes due 2027*

On 10 April 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued €200 million 1.65% guaranteed notes due 2027, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

Capital Expenditure

Group capital expenditure including capitalised interest for the year ended 31 December 2015 was HK$3,054 million (2014: HK$2,529 million). These capital investments made during the year were attributable to the network integration and coverage improvement work for the Mobile business, outlays in relation to satisfying customers' demand for the Group's high speed broadband fibre services, and the investment in international submarine cable system.

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.

As a result of investments made in previous years, the Group has in place the relevant infrastructure for the delivery of its offerings and services via its fixed, mobile and international networks. The Group also has extensive broadband network coverage throughout Hong Kong. These factors provide the Group with greater flexibility in prioritising its capital expenditure. The Group believes that its existing resources and undrawn facilities are sufficient to fund its capital expenditure for the current fiscal year.

Property, Plant and Equipment

The Group's property, plant and equipment primarily consist of transmission plants and exchange equipment (including switches, computer hardware, back-up power, plant etc.) and connecting lines (including cable ducting, copper and fibre optic cabling and poles). Hong Kong Telecommunications (HKT) Limited has been granted limited licences relating to the storage and access of network equipment in certain leasehold land and buildings principally consisting of local telephone exchanges, which in certain cases include engineering facilities or administrative offices and technical and administration centres and such leasehold land and buildings are owned by another member of the PCCW Group. Nearly all such leases are private treaty grants from the Hong Kong Government, which contain restrictions on their use for specific purposes and on their transfer. The vast majority of these leases do not expire before 2025.

The net book values of the Group's property, plant and equipment as at 31 December 2014 and 31 December 2015 were as follows:

	Net Book Value	
	As at 31 December 2014	As at 31 December 2015
	(HK$ million)	
Property, Plant and Equipment:		
Transmission plant	7,185	8,456
Exchange equipment	3,482	3,556
Other plant and equipment	2,732	2,319
Buildings	870	835
Projects under construction	1,220	1,508
Total	15,489	16,674

INSURANCE

The Group has insurance policies providing coverage for its assets and operations including loss of or damage to its properties and assets, loss of profit and additional costs of working arising from loss or damage to its properties or assets, public liability, contractual liability, employment liability, errors and omissions, amongst others.

The Group believes that its properties are covered with adequate insurance provided through a combination of its own captive insurance company and direct insurance or reinsurance policies with reputable insurance companies and with commercially prudent deductibles and limits on coverage. Notwithstanding the Group's insurance provisions, the Group could nevertheless experience a material loss as a result of an unforeseeable series of catastrophic events, systemic adverse circumstances, or other adverse occurrences not currently foreseeable and/or not commercially insurable.

EMPLOYEES

The Group's future success will depend, in large part, on its ability to continue to attract, train, retain and motivate highly qualified technical and management personnel.

The Group had approximately 19,400 employees as at 31 December 2015 in over 45 countries and cities. About 57% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States. 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.

INTELLECTUAL PROPERTY

The Group relies on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect its brand name and logos, marketing designs and Internet domain names. Over 120 registered trademarks are used and owned by the Group. The Group is not critically dependent upon any third-party patents or licences.

LITIGATION

Neither the Issuer nor the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or either Guarantor aware that any such proceedings are pending or threatened.

DIRECTORS AND SENIOR MANAGEMENT

The following individuals have been appointed to serve as the directors and senior management of HKTGH and Hong Kong Telecommunications (HKT) Limited respectively:

Name	Position
Directors	
Alexander Anthony Arena	Director of HKTGH and Hong Kong Telecommunications (HKT) Limited
Hui Hon Hing, Susanna	Director of HKTGH and Hong Kong Telecommunications (HKT) Limited
Senior Management	
Paul Berriman	Group Chief Technology Officer, Technology Strategy and Development
Chan Chi-keung	Head of Group Communications
Chan Kee Sun, Tom	Managing Director, Commercial Group
Stuart Chiron	Head of Group Regulatory Affairs
Chow Lai Sim, Florence	Head of Group Human Resources
C Marc Halbfinger	Chief Executive Officer, PCCW Global
Lam Kwok Shing, Bruce	Chief Marketing Officer, Wireless Business
Lam Wing Chap, Peter	Managing Director, Engineering
Lee Mun Yee, Grace	Group General Counsel and Company Secretary
Richard Wayne Midgett II	Managing Director, Wireless Business
Ng Wing Ho, Ringo	Managing Director, Consumer Group
Lindsay Scott Servian	Chief Development Officer and Head of ONTAPtv

Directors

Alexander Anthony Arena

Mr. Alexander Arena has been the Group Managing Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee. Mr. Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr. Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr. Arena was an Executive Director of PCCW from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr. Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited ("**PCPD**") and a member of PCPD's Executive Committee prior to November 2011.

Prior to joining the Pacific Century Group in 1998, Mr. Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at the OFTA, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr. Arena was appointed by the Hong Kong Government to plan a reform programme for the liberalisation of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr. Arena has led an extensive career in public administration, specialising in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialisation of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr. Arena completed a bachelor's degree in electrical engineering from the University of New South Wales, Australia in 1972 and graduated in 1973. He completed an MBA at the University of Melbourne, Australia in 1977 and graduated in 1978. He has been a Fellow of the Hong Kong Institution of Engineers since 2001.

Hui Hon Hing, Susanna

Ms. Susanna Hui has been the Group Chief Financial Officer of HKT and an Executive Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is also a member of HKT's Executive Committee. Ms. Hui is primarily responsible for overseeing the financial matters of the Group. Ms. Hui is and has been the Group Chief Financial Officer of PCCW since April 2007 and an Executive Director of PCCW since May 2010. She is also a member of PCCW's Executive Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was the Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms. Hui was also 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.

Senior Management

Paul Berriman

Mr. Paul Berriman is the Group Chief Technology Officer, Technology Strategy and Development, a position which he held since May 2007, having joined PCCW in 2002. Mr. Berriman is primarily responsible for leading the HKT Group's product and technology roadmap and strategic development. Prior to his present appointment, he had held positions as Head of Strategic Market Development and SVP, Strategy and Marketing. Mr. Berriman has over 25 years of experience in telecommunications, media and convergence. In 2009 he was recognised by the IPTV World Forum with their Special Merit Award for Outstanding Industry Contribution. In 2008 he was listed as one of the Global Telecoms Business Magazine's top 100 "most influential persons in telecoms". Prior to joining PCCW in 2002, Mr. Berriman was the Managing Director of Arthur D. Little in Hong Kong, a management consultancy firm, and was involved in telecommunications consultancy projects globally. Previously he also held executive, technical, engineering and operations management roles in several major Hong Kong service providers including the Hong Kong Telephone Company and Hong Kong Telecom CSL. Mr. Berriman graduated with a Bachelor of Science degree in Electro-acoustics from the University of Salford in the United Kingdom in July 1979, and a Master of Business Administration degree from the University of Hong Kong in November 1985. He became a Chartered Engineer in June 1986 and is a full member of The Institution of Engineering and Technology, and a member of Intel Communications Board of Advisors, Intel Consumer Board of Advisors and Juniper Networks Executive Forum and Advisory Council. He has been a member of OFTA's Technical Standards Advisory Committee for over 12 years. He is also an independent non-executive director of Telecom Corporation of New Zealand having joined the Board in December 2011.

Chan Chi-keung

Mr. Chan Chi-keung was appointed Head of Group Communications of PCCW in July 2011. He is responsible for HKT's corporate communications, media relations, branding, community services, and publicity and sponsorship on a group level. Mr. Chan has 25 years' experience in journalism, community relations and corporate communications. Before joining PCCW in 2008 as Vice President, Corporate Communications, he was Head of Corporate Communications of the Hong Kong Securities and Futures Commission. Prior to that, he had worked as a business reporter, and then the Deputy News Editor, of the South China Morning Post. Mr. Chan is a holder of Bachelor of Social Sciences degree from the University of Hong Kong.

Chan Kee Sun, Tom

Mr. Tom Chan is the Managing Director, Commercial Group, responsible for the telecommunications business for the enterprise and wholesales sectors. He also oversees the teleservices business of HKT and the management of HKT's property portfolio. Before his present appointment, Mr. Chan had held various management and executive positions within PCCW in the areas of finance, regulatory affairs, operations, as well as sales and marketing. He was Managing Director of the Consumer Group from 2006 to January 2012. As a professional accountant, Mr. Chan was engaged in audit and financial analyst positions prior to joining the Hong Kong Telecommunications Limited group in 1988. Mr. Chan graduated from Cardiff University, United Kingdom with a Bachelor of Economics and Social Studies degree in July 1982. He is a fellow member of the Association of Chartered Certified Accountants since October 1990 and the Chartered Institute of Marketing in the United Kingdom since February 2001.

Stuart Chiron

Mr. Stuart Chiron joined PCCW as Head of Group Regulatory Affairs in 2000 and is currently the Head of Group Regulatory Affairs of HKT. He has been engaged in the telecommunications industry for over 20 years. Prior to joining PCCW, Mr. Chiron was the Director of Regulatory Affairs for

Global One, a joint venture among Sprint, France Telecom and Deutsche Telekom. He had previously also worked for Sprint, the US Federal Communications Commission and the US Department of State. Mr. Chiron earned a BA in Government from Cornell University and a Doctor of Law from Case Western Reserve University.

Chow Lai Sim, Florence

Ms. Florence Chow is the Head of Group Human Resources. She is responsible for all the people agendas including talent acquisition, employee engagement, compensation and benefits, as well as organisation and staff development of all the Group's businesses in Hong Kong and overseas markets.

Ms. Chow has over 30 years of experience in human resources in multiple industries including financial services, automobile and telecommunications. Ms. Chow re-joined the Group in June 2011. Prior to that, she had worked for CSL. She had also worked for American Express and Standard Chartered Bank in their Hong Kong and regional offices for over 16 years. Ms. Chow graduated with a Bachelor Degree in Social Sciences from the University of Hong Kong. She is a member of the Personnel Management Committee of the Hong Kong Management Association.

C Marc Halbfinger

Mr. Marc Halbfinger is the Chief Executive Officer, PCCW Global, a position which he held since July 2007. He is primarily responsible for the integrated global communication solutions business. He has spent the past 24 years in media and telecommunications services with experience in cable TV, directories, cellular, and international voice, video, data and Internet. Mr. Halbfinger joined PCCW in May 2000 as the Senior Vice President, Business Development of Pacific Convergence Corporation, Ltd. covering Europe and North America markets where he was involved in early commercial development of "now TV". In 2001, he helped found Beyond-The-Network, which later became part of PCCW Global, and was initially appointed as the President for Europe, Middle East, and Africa. Prior to joining PCCW, Mr. Halbfinger was a Vice President at Teleglobe serving the Mediterranean and South Europe. Previously, he was a senior manager at Global One, Sprint International, and a subsidiary of Southwestern Bell Corporation. Among other academic achievements, Mr. Halbfinger earned a Master of Science (Econ.) in international relations from the London School of Economics and Political Science in August 1988.

Lam Kwok Shing, Bruce

Mr. Bruce Lam is the Chief Marketing Officer, Wireless Business. He is responsible for marketing strategies, service plans, sales and market communications for the wireless businesses. Prior to joining HKT , Mr. Lam had worked for Nokia Hong Kong Limited for 18 years and had held several important positions in procurement and sales; his last role was General Manager for its Hong Kong and Macau markets where he had responsibility for sales and marketing, business development, communication, customer care, relationship management as well as retail strategies. Mr. Lam has a Bachelor degree in Economics from the University of Windsor.

Lam Wing Chap, Peter

Mr. Peter Lam is Managing Director, Engineering. He is primarily responsible for the planning and operation of the fixed and wireless networks which support a wide range of quadruple-play telecommunications services including voice, data, broadband, interactive multimedia service, mobile and corporate customer projects in Hong Kong and overseas. Mr. Lam joined the Hong Kong Telephone Company in 1973. Over his four decades of service with the company, he held senior positions in various functions including engineering, sales, product, marketing and wholesale business. Before his present appointment, Mr. Lam was Senior Vice President of Field Services, Engineering and Senior Vice President of Wholesale Business. Mr. Lam graduated with a Higher Diploma in Electronic Engineering in 1982 from the Hong Kong Polytechnic (now Hong Kong Polytechnic University), and earned a Diploma in Management For Executive Development in 1991 from the Chinese University of Hong Kong. In 1993-1994, Mr. Lam received regulatory affairs training at the Cable & Wireless College in the United Kingdom and became a member of C&W Centre of Excellence. He also attended the C&W International Executive Development programme at INSEAD, France in 1997. He is currently the Chairman of the Joint Utilities Policy Group, President of Fixed Network & Value Added Services Group of the Communications Association of Hong Kong and a member of the Telecommunications Regulatory Affairs Advisory Committee.

Lee Mun Yee, Grace

Ms. Grace Lee has been appointed the Group General Counsel and Company Secretary of PCCW since June 2015. She is also the Group General Counsel and Company Secretary of HKT and HKT Management Limited, the trustee-manager of the HKT Trust. She is an English and Hong Kong qualified solicitor. She is a member of The Law Society of Hong Kong and has been based in Hong Kong since 2000. She is experienced in corporate finance, mergers and acquisitions, private equity, corporate restructurings and reorganisations, securities and regulatory matters and general corporate commercial matters.

Richard Wayne Midgett II

Mr. Richard Midgett is the Managing Director, Wireless Business. He is primarily responsible for the application and development of the wireless business. He has over 30 years of experience in the telecommunications industry. Mr. Midgett began his career with Cable & Wireless USA, where he served in a range of technical roles in nationwide field service operations and exchange engineering. After joining Hong Kong Telecom CSL in 1989, he took up roles spanning the areas of business development, product development, government policy and regulation, and lastly overseeing the commercial line-of-business for roaming, international, carrier and wholesale services before moving to PCCW in 2007. Mr. Midgett's most notable industry activities include serving as chairman and a member of the governing committee of the GSM Association and GSM Asia Pacific and as a member of the board of governors of the Universal Wireless Communications Consortium.

Ng Wing Ho, Ringo

Mr. Ringo Ng is the Managing Director, Consumer Group. He is responsible for product development, marketing and promotion, customer sales network, customer service and back office technical support. Mr. Ng has over 20 years of management experience in consumer business. Before his present appointment, he was the General Manager of Hilti China Limited. In his past career, he has managed several well-known brands of consumer products. In addition, he has multiple-market management experience across different industries throughout Asia Pacific and has a proven track record in expediting business performance particularly in Hong Kong and mainland China. Mr. Ng graduated with a Master Degree in Business Administration, majoring in Marketing from York University, Toronto in 1992.

Lindsay Scott Servian

Mr. Lindsay Servian is the Chief Development Officer, HKT Limited and Head of ONTAPtv.com, PCCW Global. In his role as Chief Development Officer, Mr. Servian is responsible for the development of new business development, and in his role as Head of ONTAPtv.com, Mr .Servian is responsible for the development of overseas media entertainment related business. Prior to this Mr. Servian was the Head of HKT Premier, the Head of Customer Experience and Advocacy, and the Acting Head of PCCW Group Human Resources, before which he was the Managing Director, Advertising and Interactive Services responsible for the sale of advertising and transaction-based services to third party clients in Hong Kong and China, and EVP Business Development for now TV, the PCCW Group's leading pay-TV business. Prior to joining PCCW in 2001, Mr. Servian worked in i-Onyx (HK) Limited, a listed company, as Chief Operating Officer and Executive Director, and before that in Cable & Wireless plc where, between 1997 and 2000, he was Managing Director of Cable & Wireless Teleservices HK, and Managing Director, Chairman and General Manager of Cable &

Wireless Teleservices, Taiwan. Mr. Servian has worked in the telecommunications industry since 1986, has spent 25 years in Asia, and currently works in the United Kingdom. During this time he has held management and executive positions in business development, strategy, human resources, customer service, sales, advertising and interactive services, call-centres, satellite and submarine cable systems, and in mobile and fixed network systems. Mr. Servian earned an M.A. Honours in Economic Science from the University of Aberdeen in July 1984, and studied corporate finance in a London Business School programme.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, after deducting fees, commissions and expenses are estimated to be approximately U.S.$744.3 million. The Group will use the net proceeds for its general corporate purposes, including the repayment of existing indebtedness.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

As a company incorporated under the BVI Business Companies Act, 2004, the company is exempt from all provisions of the Income Tax Act of the British Virgin Islands (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the company to persons who are not persons resident in the British Virgin Islands).

Capital gains realised with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the company, save for interest payable to or for the benefit of an individual resident in the European Union.

The Company is required to pay an annual government fee which is determined by reference to the amount of shares the Company is authorised to issue.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest in respect of the Notes.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

Cayman Islands

Under existing Cayman Islands laws:

(1) payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(2) no stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution, issue or transfer of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands;

(3) certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty; and

(4) no stamp duty is payable in the Cayman Islands on transfers of shares of companies in Cayman Islands companies except those which hold interests in land in the Cayman Islands.

European Union

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument that is subject to the dealings is issued in a participating Member State.

However, the proposed FTT remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Whilst the Notes are in global form and held within Euroclear and Clearstream, Luxembourg, it is expected that the U.S. Foreign Account Tax Compliance Act of 2010 ("**FATCA**") will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent, the common depositary for Euroclear and Clearstream, Luxembourg and/or the relevant Clearing System, given that each of the entities in the payment chain between the Issuer and the participants in the relevant Clearing System is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the relevant Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

SUBSCRIPTION AND SALE

The Issuer and the Guarantors have entered into a subscription agreement with the Joint Lead Managers, pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Joint Lead Managers, and each of the Joint Lead Managers, agreed to subscribe for the aggregate principal amount of the Notes, and each Guarantor agreed, unconditionally and irrevocably, jointly and severally, to guarantee the Notes at an issue price of 99.700 per cent. of their principal amount set forth below:

	Principal Amount of Notes
The Hongkong and Shanghai Banking Corporation Limited	U.S.$107,200,000
Goldman Sachs (Asia) L.L.C.	U.S.$107,200,000
Mizuho Securities Asia Limited	U.S.$107,200,000
Merrill Lynch International	U.S.$107,100,000
Australia and New Zealand Banking Group Limited	U.S.$107,100,000
Morgan Stanley & Co. International plc	U.S.$107,100,000
Standard Chartered Bank	U.S.$107,100,000
Total	**U.S.$750,000,000**

The Subscription Agreement provides that each of the Issuer and each Guarantor will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Joint Lead Managers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Guarantors and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Guarantors and/or their respective affiliates in the ordinary course of their business.

The Joint Lead Managers and certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

Each of the Joint Lead Managers or certain of their respective affiliates may purchase the Notes for its own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the

Guarantors or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or either Guarantor that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer, the Guarantors and the Joint Lead Managers.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Joint Lead Manager or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Guarantee (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. The Notes and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and Guarantee, an offer or sale of Notes and the Guarantee within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented and agreed that:

(i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or each of the Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Singapore

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**") and, accordingly, each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

British Virgin Islands

Each of the Joint Lead Managers has represented and agreed that it has not made and will not make any invitation to the public in the British Virgin Islands to offer or sell the Notes.

Cayman Islands

Each of the Joint Lead Managers has represented and warranted that the public in the Cayman Islands will not be invited to subscribe directly or indirectly for the Notes.

RATINGS

The Notes are expected to be rated "Baa2" by Moody's and "BBB" by S&P. A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

GENERAL INFORMATION

1 Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream under Common Code number 143845184. The International Securities Identification Number for the Notes is XS1438451848.

2 Listing of Notes

Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such an announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

3 Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 24 June 2016. The Guarantors have obtained all necessary consents, approvals and authorisations in connection with the provision of the Guarantee and performance of their obligations under the Guarantee. The provision of the Guarantee was authorised by resolutions of the Board of Directors of each Guarantor on 24 June 2016.

4 No Material Adverse Change

There has been no material adverse change in the financial or trading position or prospect of the Issuer since its date of incorporation and the Group since 31 December 2015.

5 Litigation

Neither the Issuer nor the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or either Guarantor aware that any such proceedings are pending or threatened.

6 Available Documents

The audited consolidated financial statements of HKTGH for the year ended 31 December 2015, as well as the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Issuer at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong during normal business hours, so long as any of the Notes is outstanding.

7 Auditor

The audited consolidated financial statements of HKTGH for the year ended 31 December 2015, which are reproduced in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in their report reproduced herein. PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, are the independent auditor of Hong Kong Telecommunications (HKT) Limited.

INDEX TO AUDITED FINANCIAL INFORMATION

Audited Consolidated Financial Statements of HKTGH for the year ended 31 December 2015

The following is the reproduction of the audited financial statements of HKTGH for the year ended 31 December 2015 together with the independent auditor's report.

References to page numbers in the following financial statements refer to the original page numbers of the audited financial statements and cross-references to page numbers are to such original page numbering.

Page

Financial Information extracted from the Audited Consolidated Financial Statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2015

The selected financial information of Hong Kong Telecommunications (HKT) Limited (the "**Company**") presented below as at and for the two years ended 31 December 2014 and 31 December 2015 has been extracted from the audited consolidated financial statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2015.

The consolidated financial information for the year ended 31 December 2015 has been prepared for refinancing purposes. The Company, as a wholly-owned subsidiary of HKT (Hong Kong) Limited, has applied section 379(3) of the Companies Ordinance in preparing company level financial statements as the Company's statutory financial statements. Consequently, this consolidated financial information and the comparatives do not constitute the Company's statutory financial statements for either of the years ended 31 December 2014 or 2015. Information relating to the Company's statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's auditor has reported on the company level financial statements 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, and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of HKT Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 2 to 91, which comprise the consolidated and the Company's statement of financial position as at December 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at December 31, 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, April 8, 2016

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	Note(s)	2014	**2015**
Revenue	5 & 6	28,823	**34,729**
Cost of sales		(12,053)	**(15,539)**
General and administrative expenses		(12,400)	**(13,277)**
Other gains, net	7	119	**23**
Finance costs, net	9	(1,162)	**(1,349)**
Share of results of an associate		(35)	**(27)**
Share of results of joint ventures		5	**(9)**
Profit before income tax	8	3,297	**4,551**
Income tax	11(a)	(236)	**(593)**
Profit for the year		3,061	**3,958**
Attributable to:			
- Equity holders of the Company		2,994	**3,921**
- Non-controlling interests		67	**37**
Profit for the year		3,061	**3,958**

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2014	**2015**
Profit for the year	3,061	**3,958**
Other comprehensive income		
Items that may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	(147)	**(106)**
- exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	(79)	**-**
Available-for-sale financial assets:		
- changes in fair value	(110)	**(54)**
Cash flow hedges:		
- effective portion of changes in fair value	(18)	**(263)**
- transfer from equity to consolidated income statement	(24)	**(77)**
Other comprehensive loss for the year	(378)	**(500)**
Total comprehensive income for the year	2,683	**3,458**
Attributable to:		
- Equity holders of the Company	2,616	**3,421**
- Non-controlling interests	67	**37**
Total comprehensive income for the year	2,683	**3,458**

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million		2014		
	Note(s)	Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2014		23,177	182	23,359
Comprehensive income				
Profit for the year		2,994	67	3,061
Other comprehensive loss				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
- exchange differences on translating foreign operations		(147)	-	(147)
- exchange differences on translating foreign operations transferred to consolidated income statement upon disposal		(79)	-	(79)
Available-for-sale financial assets:				
- changes in fair value		(110)	-	(110)
Cash flow hedges:				
- effective portion of changes in fair value		(18)	-	(18)
- transfer from equity to consolidated income statement		(24)	-	(24)
Total other comprehensive loss		(378)	-	(378)
Total comprehensive income for the year		2,616	67	2,683
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Interim dividend declared and paid in respect of the current year	12 & 27	(1,590)	-	(1,590)
Receipt of PCCW shares under the PCCW Subscription Scheme		21	-	21
Second interim dividend paid in respect of previous year	12 & 27	(1,553)	-	(1,553)
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		-	(54)	(54)
Acquisition of a subsidiary		-	36	36
Disposal of a subsidiary		-	(124)	(124)
Issue of ordinary shares		7,900	-	7,900
Total transactions with equity holders		4,778	(142)	4,636
At December 31, 2014		30,571	107	30,678

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million		2015		
	Note(s)	Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2015		**30,571**	**107**	**30,678**
Comprehensive income				
Profit for the year		**3,921**	**37**	**3,958**
Other comprehensive loss				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
- exchange differences on translating foreign operations		**(106)**	**-**	**(106)**
Available-for-sale financial assets:				
- changes in fair value		**(54)**	**-**	**(54)**
Cash flow hedges:				
- effective portion of changes in fair value		**(263)**	**-**	**(263)**
- transfer from equity to consolidated income statement		**(77)**	**-**	**(77)**
Total other comprehensive loss		**(500)**	**-**	**(500)**
Total comprehensive income for the year		**3,421**	**37**	**3,458**
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Interim dividend declared and paid in respect of the current year	12 & 27	**(1,953)**	**-**	**(1,953)**
Final dividend paid in respect of previous year	12 & 27	**(1,764)**	**-**	**(1,764)**
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		**-**	**(31)**	**(31)**
Contribution from a non-controlling shareholder		**-**	**6**	**6**
Total transactions with equity holders		**(3,717)**	**(25)**	**(3,742)**
At December 31, 2015		**30,275**	**119**	**30,394**

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

In HK$ million	Note(s)	2014	**2015**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	15,489	**16,674**
Interests in leasehold land	14	278	**265**
Goodwill	15	49,655	**49,817**
Intangible assets	16	10,307	**9,314**
Interest in an associate	18	171	**67**
Interests in joint ventures	19	473	**470**
Available-for-sale financial assets	20	61	**7**
Financial assets at fair value through profit or loss	21	41	**62**
Deferred income tax assets	28	371	**231**
Other non-current assets		639	**630**
		77,485	**77,537**
Current assets			
Prepayments, deposits and other current assets		3,998	**4,455**
Inventories	22(a)	621	**598**
Trade receivables, net	22(b)	3,875	**3,422**
Amounts due from related companies	4(a)	76	**73**
Derivative financial instruments	24	49	**-**
Financial assets at fair value through profit or loss	21	59	**58**
Restricted cash	22(c)	-	**10**
Cash and cash equivalents	30(d)	3,510	**3,743**
		12,188	**12,359**
Current liabilities			
Short-term borrowings	22(d)	3,877	**3,879**
Trade payables		1,979	**2,194**
Accruals and other payables		5,030	**4,899**
Carrier licence fee liabilities	29	433	**452**
Amount due to a related company	4(a)	94	**72**
Amounts due to fellow subsidiaries and the immediate holding company	4(a) & 4(c)	7,824	**7,795**
Advances from customers		1,997	**2,066**
Current income tax liabilities		398	**723**
		21,632	**22,080**

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AS AT DECEMBER 31, 2015

In HK$ million	Note(s)	2014	**2015**
Non-current liabilities			
Long-term borrowings	23	32,549	**32,436**
Derivative financial instruments	24	100	**443**
Deferred income tax liabilities	28	2,591	**2,552**
Deferred income		1,033	**1,079**
Carrier licence fee liabilities	29	954	**627**
Other long-term liabilities		136	**285**
		37,363	**37,422**
Net assets		30,678	**30,394**
CAPITAL AND RESERVES			
Share capital	25	4,961	**4,961**
Reserves	27	25,610	**25,314**
Equity attributable to equity holders of the Company		30,571	**30,275**
Non-controlling interests		107	**119**
Total equity		30,678	**30,394**

Approved and authorized for issue by the board of directors (the "Board") on April 8, 2016 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

In HK$ million	Note	2014	**2015**
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	25,294	**25,294**
		25,294	**25,294**
Current assets			
Amounts due from subsidiaries	17(b)	3,324	**3,324**
Amount due from the immediate holding company	4(c)	91	**91**
		3,415	**3,415**
Current liabilities			
Amounts due to subsidiaries	17(b)	1,424	**1,424**
		1,424	**1,424**
Net assets		27,285	**27,285**
CAPITAL AND RESERVES			
Share capital	25	4,961	**4,961**
Reserves	27	22,324	**22,324**
Total equity		27,285	**27,285**

Approved and authorized for issue by the Board on April 8, 2016 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 10 to 91 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	Note	2014	**2015**
NET CASH GENERATED FROM OPERATING ACTIVITIES	30(a)	9,376	**11,430**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		5	**6**
Purchases of property, plant and equipment		(2,510)	**(3,037)**
Proceeds from disposal of a subsidiary, net	37	20	**-**
Purchases of intangible assets		(3,219)	**(3,760)**
Net outflow of cash and cash equivalents in respect of business combinations	30(b)	(18,769)	**(193)**
Settlement of contingent consideration upon business combinations		-	**(77)**
Return of investment from a joint venture		11	**-**
Loans to an associate		(81)	**(49)**
Repayment of loan from an associate		25	**22**
Loan to a joint venture		(68)	**(127)**
NET CASH USED IN INVESTING ACTIVITIES		(24,586)	**(7,215)**
FINANCING ACTIVITIES			
New borrowings raised		32,917	**18,045**
Interest paid		(821)	**(913)**
Repayments of borrowings		(21,009)	**(18,173)**
Movement in amount due to fellow subsidiaries		878	**776**
Contribution from non-controlling shareholders of a subsidiary		-	**6**
Dividends paid to the sole shareholder of the Company	12	(3,143)	**(3,717)**
Dividend paid to non-controlling shareholders of a subsidiary		(91)	**(31)**
Proceeds from issue of ordinary shares		7,900	**-**
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		16,631	**(4,007)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,421	**208**
Exchange differences		(42)	**25**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,131	**3,510**
End of year	30(d)	3,510	**3,743**

The notes on pages 10 to 91 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers (the "Telecommunications Business"). It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

These consolidated financial statements are presented in millions of units of Hong Kong dollars (HK$ million), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on April 8, 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with all the Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, 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. 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 HKFRSs are mandatory for the first time for the financial year beginning January 1, 2015, but have no material effect on the Group's results and financial position for the current and accounting periods:

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

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 38.

In addition, the requirement of Part 9 "Accounts and Audit" of new HK Co. Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

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

- financial assets at fair value through profit or loss (see note 2(k)(i));
- available-for-sale financial assets (see note 2(k)(ii)); and
- derivative financial instruments (see note 2(m)).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

Judgements made by management in the application of HKFRSs 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 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 2(l)(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 in which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost. The Group's interest in an associate 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 associate 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 associate's other comprehensive income.

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

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

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

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

e. Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of January 1, 2012. A joint arrangement is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

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

Investments in joint ventures are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost. The Group's investment in joint ventures 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 joint ventures' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the joint ventures and any impairment losses for the year. The consolidated statement of comprehensive income include the Group's share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

e. Joint arrangements *(continued)*

When the Group's share of losses exceeds its interest in the joint venture, 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 joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealized profits and losses resulting from transactions between the Group and their joint ventures are eliminated to the extent of the Group's interest in the joint ventures, 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.

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

f. Gaining or losing control

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

g. Property, plant and equipment

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(u)(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.

i. Goodwill

Goodwill represents the excess of the cost of a business combination or interest in an associate or a joint venture over the Group's interest in the aggregate net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

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

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

j. Intangible assets (other than goodwill)

i. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

ii. Carrier licences

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

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

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences, intellectual property, market knowledge and trademarks are capitalized as "intangible assets" if it is identifiable and the entity 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 source.

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

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

iv. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 10 years
Programme costs	Over the terms of the contract period

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k. Investments in equity securities

The Group classifies its investments in equity securities, other than interests in subsidiaries and interests in an associate and joint ventures, as (i) financial assets at fair value through profit or loss, or (ii) available-for-sale financial assets.

Investments in 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. 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 designated as fair value through profit or loss at inception.

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 re-measured based on their current bid prices in an active market, 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(u)(v) and 2(u)(vii) respectively. Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

ii. 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 as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. 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 re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 2(l)(i)) and, in the case of monetary items, 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(u)(vii). When the investments are derecognized or impaired (see note 2(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

Investments in 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 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

l. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in subsidiaries and interests in an associate and joint ventures: see note 2(l)(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; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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

– 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.

– 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 in 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 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 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

l. Impairment of assets *(continued)*

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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;

– intangible assets;

– interests in an associate and joint ventures;

– goodwill; and

– interests in subsidiaries (at Company level).

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

– Calculation of recoverable amount

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

– 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

m. Derivative financial instruments

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

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of 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 current assets or liabilities.

n. 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, net", 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 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 policy statements, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the 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 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

o. 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.

p. 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(l)(i)).

q. Cash and cash equivalents

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

r. 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.

s. 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.

t. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

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

ii. Sales of goods

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

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

v. 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 complete.

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

w. 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 year.

iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

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

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

w. Income tax *(continued)*

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.

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

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

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

iii. Share-based payments

PCCW, the HKT Trust and HKT operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise. 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 premium account) or the share options expire (when it is released directly to retained profit).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

x. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

The boards of directors of HKT Management Limited (the trustee-manager of the HKT Trust) and the HKT may also grant Share Stapled Units to employees at nil consideration under the HKT's Share Stapled Units award schemes, under which the awarded Share Stapled Units are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "HKT Share Stapled Units Purchase Scheme"). The cost of Share Stapled Units purchased from the open market is recognized in equity as treasury stock. 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 to 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 as treasury stock is transferred to the employee share-based compensation reserve.

Share Stapled Units granted to employees of the Group by the principal holder of Share Stapled Units are accounted for in accordance with the same policy for the awarded Share Stapled Units under the Share Stapled Units award schemes as described above. The fair value of the Share Stapled Units granted 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.

The board of directors of PCCW may also grant shares of PCCW and Share Stapled Units to employees of the participating subsidiaries of PCCW at nil consideration under its share award schemes, under which the awarded PCCW shares are either newly issued at par value (the "PCCW Subscription Scheme") or are purchased from the open market (the "PCCW Purchase Scheme").

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

Shares of PCCW granted to employees of the Group by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under share award schemes as described above. The fair value of the shares granted by principal shareholder 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, with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation under equity.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

y. Translation of foreign currencies

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

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement.

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

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

z. Related parties

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

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

z. Related parties *(continued)*

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.

aa. Segment reporting

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

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

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

bb. Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 15 and 32; contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are discussed below:

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

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

ii. Impairment of assets (other than investments in 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 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;
– intangible assets;
– interests in an associate and joint ventures;
– goodwill, and
– interests in subsidiaries (at Company level)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the 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 assessment utilizing internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilized, the Group is required to make many assumptions to make this assessment, 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.

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

iii. Revenue recognition *(continued)*

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

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

iv. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimate 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.

v. Current income tax

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

vi. Useful lives of property, plant and equipment and intangible assets (other than goodwill)

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

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

During the year ended December 31, 2014, the Group performed a review to reassess the useful lives of certain exchange equipment and transmission plant of the Group based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from July 1, 2014. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2014 decreased by HK$770 million and the net assets as at December 31, 2014 decreased by HK$770 million.

During the year ended December 31, 2015, the Group also performed a review to reassess the useful life of certain customer base. The reassessment has resulted in a change in accounting estimate. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2015 decreased by HK$388 million and the net assets as at December 31, 2015 decreased by HK$388 million.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

vii. Recognition of intangible asset – carrier licences

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

4 RELATED PARTY TRANSACTIONS

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

In HK$ million	Group	
	2014	**2015**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	187	**80**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	121	**168**
Telecommunications service fees and interest income received or receivable from joint ventures	68	**59**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a joint venture	293	**266**
Consultancy service charges and interest income received or receivable from an associate	20	**15**
Telecommunications service fees, IT and logistics charge, management fee and other recharge costs received or receivable from fellow subsidiaries	642	**676**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	1,642	**1,869**
Rent and facilities management charges paid or payable to fellow subsidiaries	129	**144**
Interest paid/payable to the immediate holding company	39	**39**

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

4 RELATED PARTY TRANSACTIONS *(CONTINUED)*

a. Balances with related companies and fellow subsidiaries

The net amounts due to fellow subsidiaries as at December 31, 2014 and 2015 are unsecured, non-interest bearing and have no fixed repayment terms.

The net amounts due from/to related companies as at December 31, 2014 and 2015 are unsecured, non-interest bearing and have no fixed repayment terms.

b. Key management compensation

In HK$ million	Group	
	2014	**2015**
Salaries and other short-term employee benefits	76	**66**
Post-employment benefits	2	**2**
	78	**68**

c. Balances with the immediate holding company

The balances included in the amounts due from/to the immediate holding company are unsecured, non-interest bearing and have no fixed repayment terms, except for the loan payable to the immediate holding company at consolidated level of HK$7,437 million as at December 31, 2015 (2014: HK$7,437 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2014: HIBOR plus 0.3%) and repayable within one year.

5 REVENUE

In HK$ million	Group	
	2014	**2015**
Telecommunications and other service revenue	25,003	**27,730**
Sales of goods	3,775	**6,951**
Rental income	45	**48**
	28,823	**34,729**

6 SEGMENT INFORMATION

The CODM is the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

The CODM considers the business from the product perspectives. From a product perspective, management assesses the performance of the following segments:

- Telecommunications Services ("TSS") is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical, maintenance and subcontracting services and teleservices businesses.
- Mobile includes the Group's mobile telecommunications businesses in Hong Kong.
- Other businesses of the Group ("Other Businesses") primarily comprised corporate support functions, Keycom plc, a wholly-owned subsidiary of the Company acquired during the year ended December 31, 2015 which provides the design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom, and ZhongYing JV, which provides network integration and related services to telecommunications operators in the People's Republic of China ("PRC"). In December 2014, the Group completed the disposal of its entire equity interest in ZhongYing JV.

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, and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and joint ventures and the Group's share of results of an associate and joint ventures.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. 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	Group 2014				
	TSS	Mobile	Other Businesses	Eliminations	Total
Revenue					
External revenue	19,309	8,950	564	-	28,823
Inter-segment revenue	604	-	-	(604)	-
Total revenue	19,913	8,950	564	(604)	28,823
Results					
EBITDA	7,362	3,147	(251)	-	10,258
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,487	959	83	-	2,529

6 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million			Group 2015		
	TSS	Mobile	Other Businesses	Eliminations	Total
Revenue					
External revenue	**20,205**	**14,317**	**207**	**-**	**34,729**
Inter-segment revenue	**672**	**-**	**-**	**(672)**	**-**
Total revenue	**20,877**	**14,317**	**207**	**(672)**	**34,729**
Results					
EBITDA	**7,507**	**5,030**	**(427)**	**-**	**12,110**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**1,385**	**1,516**	**153**	**-**	**3,054**

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

In HK$ million	Group 2014	**2015**
Total segment EBITDA	10,258	**12,110**
(Loss)/gain on disposals of property, plant and equipment, net	(2)	**5**
Depreciation and amortization	(5,886)	**(6,202)**
Other gains, net	119	**23**
Finance costs, net	(1,162)	**(1,349)**
Share of results of an associate	(35)	**(27)**
Share of results of joint ventures	5	**(9)**
Profit before income tax	3,297	**4,551**

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

In HK$ million	Group 2014	**2015**
Hong Kong	22,265	**27,212**
The PRC (excluding Hong Kong) and Taiwan, China	1,436	**1,197**
Others	5,122	**6,320**
	28,823	**34,729**

6 SEGMENT INFORMATION *(CONTINUED)*

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$74, 673 million as at December 31, 2015 (2014: HK$74,620 million). The total of these non-current assets located in other countries are HK$2,461 million as at December 31, 2015 (2014: HK$2,391 million).

7 OTHER GAINS, NET

In HK$ million	Group 2014	**2015**
Net gain on cash flow hedging instruments transferred from equity	22	**67**
Net gain on fair value hedging instruments	47	**48**
Impairment loss on an interest in an associate	(52)	**(95)**
Gain on disposal of interest in a subsidiary (note 37)	55	**-**
Others	47	**3**
	119	**23**

8 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	Group 2014	**2015**
Salaries, bonuses and other benefits	2,211	**2,330**
Share-based compensation expenses	90	**60**
Retirement costs for staff under defined contribution retirement schemes	139	**275**
	2,440	**2,665**

b. Other items

In HK$ million	Group 2014	**2015**
Crediting:		
Gross rental income	45	**48**
Charging:		
Impairment loss for doubtful debts	164	**284**
Loss/(gain) on disposal of property, plant and equipment, net	2	**(5)**
Provision for inventory obsolescence	10	**8**
Depreciation of property, plant and equipment	3,071	**1,854**
Amortization of land lease premium	13	**13**
Amortization of intangible assets	2,802	**4,335**
Cost of inventories sold	3,645	**6,490**
Cost of sales, excluding inventories sold	8,408	**9,049**
Exchange losses, net	6	**13**
Cash flow hedges: transferred from equity	(3)	**(11)**
Auditor's remuneration	11	**13**
Operating lease rental	1,395	**1,542**

9 FINANCE COSTS, NET

In HK$ million	Group 2014	2015
Interest paid/payable for:		
Interest expenses	(1,078)	**(1,220)**
Notional accretion on carrier licence fee liabilities	(110)	**(114)**
Other borrowing costs	(41)	**(46)**
Cash flow hedges: transferred from equity	(1)	**(1)**
Cash flow hedges: changes in fair value	-	**(32)**
Impact of re-designation of fair value hedges	-	**(16)**
Fair value hedges: changes in fair value (note (a))	(4)	**-**
	(1,234)	**(1,429)**
Interest capitalized in property, plant and equipment (note (b))	19	**17**
Total finance costs	(1,215)	**(1,412)**
Interest income	53	**63**
Finance costs, net	(1,162)	**(1,349)**

a. This represents fair value changes of derivative financial instruments on fair value hedges. During the year ended December 2015, there was no fair value change on derivative financial instruments on fair value hedges (2014: gain of HK$305 million) and no fair value adjustment of borrowings attributable to interest rate risk (2014: debit of HK$309 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.41% to 3.95% for the year ended December 31, 2015 (2014: from 3.63% to 3.77%).

10 DIRECTORS' EMOLUMENTS

The salaries and other short-term employee benefits and post-employment benefits of approximately HK$72,763,000 and HK$2,001,000 (2014: HK$58,744,000 and HK$2,179,000) respectively cover the compensation for three directors of the Company for the year (2014: three).

11 INCOME TAX

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

In HK$ million	Group 2014	2015
Hong Kong profits tax		
- provision for current year	206	**459**
Overseas tax		
- provision for current year	47	**38**
- Overprovision for prior year	(2)	**(11)**
Movement of deferred income tax (note 28(a))	(15)	**107**
	236	**593**

Hong Kong profits tax has been provided at the rate of 16.5 % (2014: 16.5%) on the estimated assessable profits for the year.

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

11 INCOME TAX (Continued)

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

In HK$ million	Group 2014	2015
Profit before income tax	3,297	**4,551**
Notional tax on profit before income tax, calculated at applicable tax rate	544	**750**
Effect of different tax rates of subsidiaries operating overseas	10	**5**
Income not subject to tax	(24)	**(35)**
Expenses not deductible for tax purposes	1	**36**
Tax losses not recognized	7	**28**
Overprovision in respect of prior year	(2)	**(11)**
Utilization of previously unrecognized tax losses	(305)	**(105)**
Recognition of previously unrecognized tax losses	-	**(80)**
Net losses of an associate and joint ventures not deductible to tax	5	**5**
Income tax expense	236	**593**

The change in the effective tax rate for the year ended December 31, 2015 comparing with 2014 was mainly due to lower utilization of previously unrecognized tax loss in 2015.

12 DIVIDENDS

In HK$ million	2014	2015
Interim dividend declared and paid in respect of the current year	1,590	**1,953**
Second interim/final dividend declared and paid during the year in respect of the previous financial year	1,553	**1,764**
Final dividend declared after the end of the reporting period	1,764	**2,141**

Dividends declared after the end of the reporting period have not been recognized as liabilities as at the end of the reporting period.

13 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	Group 2014					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,074	19,228	20,428	10,162	1,453	52,345
Additions	-	557	752	469	751	2,529
Additions upon business combinations (note 36)	392	694	561	225	121	1,993
Disposal of interest in a subsidiary (note 37)	-	-	-	(16)	-	(16)
Transfers	-	437	484	184	(1,105)	-
Disposals	-	(401)	(21)	(62)	-	(484)
Exchange differences	-	(47)	(88)	-	-	(135)
End of year	1,466	20,468	22,116	10,962	1,220	56,232
Accumulated depreciation and impairment						
Beginning of year	570	16,145	13,747	7,775	-	38,237
Charge for the year	26	1,281	1,238	526	-	3,071
Disposal of interest in a subsidiary (note 37)	-	-	-	(11)	-	(11)
Disposals	-	(401)	(16)	(60)	-	(477)
Exchange differences	-	(39)	(38)	-	-	(77)
End of year	596	16,986	14,931	8,230	-	40,743
Net book value						
End of year	870	3,482	7,185	2,732	1,220	15,489
Beginning of year	504	3,083	6,681	2,387	1,453	14,108

13 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	Group 2015					
	Buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,466**	**20,468**	**22,116**	**10,962**	**1,220**	**56,232**
Additions	**-**	**399**	**1,542**	**70**	**1,043**	**3,054**
Additions upon business combinations (note 36)	**-**	**55**	**-**	**4**	**-**	**59**
Transfers	**-**	**239**	**478**	**38**	**(755)**	**-**
Disposals	**-**	**(410)**	**(249)**	**(29)**	**-**	**(688)**
Exchange differences	**-**	**(27)**	**(129)**	**(13)**	**-**	**(169)**
End of year	**1,466**	**20,724**	**23,758**	**11,032**	**1,508**	**58,488**
Accumulated depreciation and impairment						
Beginning of year	**596**	**16,986**	**14,931**	**8,230**	**-**	**40,743**
Charge for the year	**35**	**614**	**676**	**529**	**-**	**1,854**
Disposals	**-**	**(411)**	**(249)**	**(27)**	**-**	**(687)**
Exchange differences	**-**	**(21)**	**(56)**	**(19)**	**-**	**(96)**
End of year	**631**	**17,168**	**15,302**	**8,713**	**-**	**41,814**
Net book value						
End of year	**835**	**3,556**	**8,456**	**2,319**	**1,508**	**16,674**
Beginning of year	**870**	**3,482**	**7,185**	**2,732**	**1,220**	**15,489**

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

14 INTERESTS IN LEASEHOLD LAND

In HK$ million	Group 2014	**2015**
Cost		
Beginning of year and end of year	536	**536**
Accumulated amortization		
Beginning of year	245	**258**
Charge for the year	13	**13**
End of year	258	**271**
Net book value		
End of year	278	**265**
Beginning of year	291	**278**

15 GOODWILL

In HK$ million	Group	
	2014	**2015**
Cost		
Beginning of year	36,043	**49,655**
Additions upon business combinations	13,627	**182**
Exchange differences	(15)	**(20)**
End of year	49,655	**49,817**

Impairment tests for CGUs containing goodwill

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

	Group	
In HK$ million	2014	**2015**
TSS		
- Local telephony and data services	30,962	**30,962**
- Global	1,146	**1,136**
- Others	505	**501**
Mobile	16,816	**16,853**
Other Businesses	226	**365**
Total	49,655	**49,817**

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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

	2014			**2015**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
TSS						
- Local telephony and data services	75%	1%	9%	**77%**	**1%**	**8%**
- Global	21%	3%	11%	**23%**	**3%**	**10%**
Mobile	52%	2%	11%	**46%**	**2%**	**10%**

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

There was no indication of impairment arising from review on goodwill as at October 31, 2015.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

16 INTANGIBLE ASSETS

In HK$ million

Group 2014	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	535	1,600	2,690	5,092	681	13	10,611
Additions	-	108	2,314	-	256	161	2,839
Additions upon business combinations (note 36(b))	1,343	2,332	-	2,716	-	-	6,391
Write-off	-	-	(1,392)	-	-	(161)	(1,553)
Exchange differences	(8)	-	-	(7)	-	-	(15)
End of year	1,870	4,040	3,612	7,801	937	13	18,273
Accumulated amortization							
Beginning of year	124	838	1,539	4,138	67	13	6,719
Charge for the year	75	439	1,527	530	70	161	2,802
Write-off	-	-	(1,392)	-	-	(161)	(1,553)
Exchange differences	(1)	-	-	(1)	-	-	(2)
End of year	198	1,277	1,674	4,667	137	13	7,966
Net book value							
End of year	1,672	2,763	1,938	3,134	800	-	10,307
Beginning of year	411	762	1,151	954	614	-	3,892

In HK$ million

Group 2015	**Trademarks**	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**1,870**	**4,040**	**3,612**	**7,801**	**937**	**13**	**18,273**
Additions	**1**	**117**	**2,784**	**-**	**260**	**172**	**3,334**
Additions upon business combinations (note 36(a))	**-**	**-**	**-**	**12**	**-**	**-**	**12**
Write-off	**-**	**-**	**(1,428)**	**(5,040)**	**-**	**(171)**	**(6,639)**
Exchange differences	**(3)**	**-**	**-**	**-**	**-**	**-**	**(3)**
End of year	**1,868**	**4,157**	**4,968**	**2,773**	**1,197**	**14**	**14,977**
Accumulated amortization							
Beginning of year	**198**	**1,277**	**1,674**	**4,667**	**137**	**13**	**7,966**
Charge for the year	**93**	**550**	**2,244**	**1,148**	**128**	**172**	**4,335**
Write-off	**-**	**-**	**(1,428)**	**(5,040)**	**-**	**(171)**	**(6,639)**
Exchange differences	**-**	**-**	**1**	**-**	**-**	**-**	**1**
End of year	**291**	**1,827**	**2,491**	**775**	**265**	**14**	**5,663**
Net book value							
End of year	**1,577**	**2,330**	**2,477**	**1,998**	**932**	**-**	**9,314**
Beginning of year	**1,672**	**2,763**	**1,938**	**3,134**	**800**	**-**	**10,307**

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

17 INTERESTS IN SUBSIDIARIES

In HK$ million	The Company 2014	**2015**
Unlisted shares, at cost	25,294	**25,294**

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/place of incorporation/ establishment and operation	Principal activities	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Indirectly
HKT Services Limited	Hong Kong	Provision of management services to group companies	HK$1	-	100%
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	Provision of telecommunications services	HK$9,945,156,001	-	100%
Gateway Global Communications Limited	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	-	100%
PCCW Global B.V.	Netherlands/ France	Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited	EURO18,000	-	100%
PCCW Global, Inc.	U.S. (Delaware)	Supply of broadband internet access solutions and web services	US$18.01	-	100%
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK$167,743,479	-	100%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	-	100%
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	Provision of telecommunications solutions related services	S$60,956,485.64	-	100%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	-	75%[2]

17 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/place of incorporation/ establishment and operation	Principal activities	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
CSL Mobile Limited	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 HK$1,254,000,000 non-voting deferred shares	-	100%
Sun Mobile Limited	Hong Kong	Provision of mobile communication service to customers in Hong Kong	HK$41,600,000	-	60%
廣州電盈綜合客戶服務技術發展有限公司 [1] (PCCW Customer Management Technology and Services (Guangzhou) Limited [3])	The PRC	Customer service and consultancy	HK$93,240,000	-	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	-	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$350,000,002	-	100%
PCCW Teleservices (US), Inc.	Nebraska, U.S.	Telemarketing and direct marketing services	US$1,169	-	100%

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

Notes:
1. Represents a wholly foreign owned enterprise.
2. The equity interest held by non-controlling interest is 25% as at December 31, 2015.
3. Unofficial company name.

b. Balances with subsidiaries

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the balances with subsidiaries are as follows:

In HK$ million	The Company 2014	**2015**
Amounts due from subsidiaries	3,324	**3,324**
Amounts due to subsidiaries	1,424	**1,424**

Balances with subsidiaries are unsecured, non-interest bearing, and have no fixed terms of repayment.

17 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Non-controlling interest of the Group's subsidiaries

The total non-controlling interests as at December 31, 2015 were HK$119 million (2014: HK$107 million), of which HK$53 million (2014: HK$53 million) was attributable to non-controlling interests in Unihub Global Network Technology (China) Limited.

18 INTEREST IN AN ASSOCIATE

In HK$ million	Group 2014	Group **2015**
Share of net assets of an associate	-	**-**
Loans due from an associate, net	223	**214**
Provision for impairment	(52)	**(147)**
	171	**67**
Investments at cost, unlisted	41	**41**

a. As at December 31, 2015, particulars of the associate of the Group are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Value of registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
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	-	35%	Equity

Unofficial company name

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.

DJTCL is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of the associate

As at December 31, 2015, the Group's share of its associate's commitments were as follows:

In HK$ million	Group 2014	Group **2015**
Operating lease commitments		
- within 1 year	6	**3**
- after 1 year but within 5 years	7	**3**

The Group's contingent liabilities relating to its associate is disclosed in note 34. As at December 31, 2015, the Group has no share of contingent liabilities of its associate.

18 INTEREST IN AN ASSOCIATE *(CONTINUED)*

c. Summarized unaudited financial information of the Group's associate

Set out below is the summarized unaudited financial information of the associate which is accounted for using the equity method:

In HK$ million	2014	**2015**
Non-current assets	25	**3**
Current assets	97	**57**
Current liabilities	(389)	**(404)**

In HK$ million	2014	**2015**
Revenue	462	**226**
Loss after income tax and total comprehensive loss	(100)	**(77)**

The information above reflects the amounts presented in the financial statement of the associate (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

d. Reconciliation of summarized financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in an associate.

In HK$ million	2014	**2015**
Net liabilities		
Beginning of year	(167)	**(267)**
Loss for the year	(100)	**(77)**
End of year	(267)	**(344)**
Interest in an associate	35%	**35%**
Interest in an associate	(93)	**(120)**
Goodwill	24	**24**
Loans due from an associate (note (i))	292	**310**
Provision for impairment	(52)	**(147)**
Carrying value	171	**67**

(i) As at December 31, 2014, loans due from an associate comprised unsecured loans totaling HK$74 million which bear interest at 4% per annum and repayable in 1 year, and certain secured loans totaling HK$218 million which bear interest at 4% per annum and repayable in 1 year.

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

During the year ended December 31, 2015, provision for impairment of HK$95 million (2014: HK$52 million) was included in other gains, net in the consolidated income statement. This was a result of the estimated recoverable amount being lower than its carrying amount.

During the year ended December 31, 2015, the Group did not have any unrecognized share of losses of an associate (2014: nil). As at December 31, 2015, the accumulated share of loss of the associate unrecognized by the Group were nil (2014: nil).

19 INTERESTS IN JOINT VENTURES

In HK$ million	Group 2014	2015
Share of net liabilities of joint ventures	(5)	**(14)**
Loan due from a joint venture	478	**484**
	473	**470**
Investments at cost , unlisted	-	**-**

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2014: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2015, particulars of the principal joint venture of the Group are as follows:

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

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

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

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2015, the Group's share of its joint ventures were as follows:

In HK$ million	Group 2014	2015
Commitment to provide funding	84	**66**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2015, the Group's share of its joint venture's contingent liabilities relating to its joint ventures comprised corporate guarantees of HK$82 million (2014: HK$158 million).

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group principal joint venture

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

In HK$ million	2014	**2015**
Non-current assets	1,063	**1,029**
Current assets		
Cash and cash equivalents	43	**9**
Other current assets (excluding cash and cash equivalents)	20	**21**
Total current assets	63	**30**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(261)	**(244)**
Other current liabilities (including trade payables, accrual and other payables)	(54)	**(28)**
Total current liabilities	(315)	**(272)**
Non-current liabilities		
Financial liabilities (excluding trade payables)	(842)	**(827)**
Total non-current liabilities	(842)	**(827)**
Net liabilities	(31)	**(40)**
Equity attributable to equity holders	(31)	**(40)**

In HK$ million	2014	**2015**
Revenue	227	**241**
Depreciation and amortization	(91)	**(92)**
Interest expense	(38)	**(35)**
Profit before income tax	1	**2**
Income tax	(23)	**(11)**
Loss after income tax and total comprehensive loss	(22)	**(9)**

For the year ended December 31, 2015, both the aggregate total net amount of profit/(loss) after income tax and total comprehensive income of the individually immaterial joint ventures that are accounted for using the equity method were HK$1 million (2014:HK$110 million).

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

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of the principal joint venture

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

In HK$ million	2014	**2015**
Net liabilities		
Beginning of year	(9)	**(31)**
Loss for the year	(22)	**(9)**
End of year	(31)	**(40)**
Interests in joint venture	50%	**50%**
Interests in joint venture	(16)	**(20)**
Loan due from a joint venture	478	**484**
Carrying value	462	**464**

As at December 31, 2015, the aggregate carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method was HK$6 million (2014: HK$11 million).

During the year ended December 31, 2015, the Group did not have any unrecognized share of losses of joint ventures (2014: nil). As at December 31, 2015, there was no accumulated share of losses of the joint ventures unrecognized by the Group (2014: nil).

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	Group	
	2014	**2015**
Listed equity securities- overseas		
Beginning of year	171	**61**
Net loss transferred to equity (note 27)	(110)	**(54)**
End of year	61	**7**

There was no provision for impairment (2014: nil) recognized in the consolidated income statement for the year ended December 31, 2015. The Group does not hold any collateral over these securities.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	Group	
	2014	**2015**
Listed securities	100	**120**
Less: Securities held for employee share award to be vested within one year classified as current assets	(59)	**(58)**
Non-current portion	41	**62**

Financial assets at fair value through profit or loss represent shares of PCCW and Share Stapled Units acquired under the PCCW Purchase Scheme and the HKT Share Stapled Units Purchase Scheme, respectively. Please refer to notes 26(b)(iv) and 26(b)(iii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT, respectively.

22 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	Group	
	2014	**2015**
Work-in-progress	252	**253**
Finished goods	301	**294**
Consumable inventories	68	**51**
	621	**598**

b. Trade receivables, net

In HK$ million	Group	
	2014	**2015**
Trade receivables (note (i))	4,026	**3,590**
Less: Impairment loss for doubtful debts (note (ii))	(151)	**(168)**
Trade receivables, net	3,875	**3,422**

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

In HK$ million	Group	
	2014	**2015**
1 - 30 days	2,161	**2,079**
31 - 60 days	542	**579**
61 - 90 days	258	**211**
91 - 120 days	146	**167**
Over 120 days	919	**554**
	4,026	**3,590**

22 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net (continued)

ii. Impairment loss for doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	Group	
	2014	**2015**
Beginning of year	123	**151**
Impairment loss recognized (note 8(b))	164	**284**
Uncollectible amounts written off	(136)	**(267)**
End of year	151	**168**

As at December 31, 2015, trade receivables of HK$105 million (2014: HK$151 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$105 million (2014: HK$97 million) was recognized. The Group does not hold any collateral over these balances.

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	Group	
	2014	**2015**
Neither past due nor impaired	1,754	**1,676**
1 - 30 days past due	818	**851**
31 - 60 days past due	304	**269**
61 - 90 days past due	154	**122**
Over 90 days past due	845	**504**
Past due but not considered impaired	2,121	**1,746**
	3,875	**3,422**

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 of the Group was the amount due from related parties of HK$12 million (2014: HK$25 million).

c. Restricted cash

As at December 31, 2015, cash balance appropriately HK$10 million (2014: nil) has been received from and restricted for the use of certain customers.

22 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

d. Short-term borrowings

In HK$ million	Group	
	2014	**2015**
US$500 million 5.25% guaranteed notes due 2015 (note (i))	3,877	-
US$500 million 4.25% guaranteed notes due 2016 (note (ii))	-	**3,879**
Secured	-	-
Unsecured	3,877	**3,879**

(i) US$500 million 5.25% guaranteed notes due 2015
On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which were listed on the Singapore Exchange Securities Trading Limited. The notes were irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of PCCW, the Company and HKTL, a wholly-owned subsidiary of the Company. The notes ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTL and the Company.

The notes were fully redeemed in July 2015 and were delisted from the Singapore Exchange Securities Trading Limited.

(ii) US$500 million 4.25% guaranteed notes due 2016
On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect 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 HKTL and the Company and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

The Notes were fully redeemed in February 2016 and were delisted from the Singapore Exchange Securities Trading Limited.

23 LONG-TERM BORROWINGS

In HK$ million	Group	
	2014	**2015**
Repayable within a period		
- over one year, but not exceeding two years	11,798	**3,544**
- over two years, but not exceeding five years	17,057	**17,386**
- over five years	3,694	**11,506**
	32,549	**32,436**
Representing:		
US$500 million 4.25% guaranteed notes due 2016 (note (a))	3,924	-
US$500 million 3.75% guaranteed notes due 2023 (note (b))	3,694	**3,711**
US$300 million zero coupon guaranteed notes due 2030 (note(c))	-	**2,308**
US$500 million 3.625% guaranteed notes due 2025 (note(d))	-	**3,821**
Euro 200 million 1.65% guaranteed notes due 2027 (note(e))	-	**1,666**
Bank borrowings	24,931	**20,930**
	32,549	**32,436**
Secured	-	-
Unsecured	32,549	**32,436**

23 LONG-TERM BORROWINGS (Continued)

a. US$500 million 4.25% guaranteed notes due 2016
The notes were classified as short-term borrowings as at December 31, 2015. Please refer to note 22(d)(ii) for more details.

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

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

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

e. Euro 200 million 1.65% guaranteed notes due 2027
On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued Euro 200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

Please refer to note 35 for details of the Group's bank loan facilities.

24 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	Group	
	2014	**2015**
Current assets		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	49	-
Non-current liabilities		
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	100	-
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a)&(b))	-	**443**

As at December 31, 2015, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,000 million (approximately HK$7,756million) (2014: US$1,000 million (approximately HK$7,769 million)) and Euro 200 million (approximately HK$1,665 million) (2014: nil), at various rates, to manage the Group exposure to foreign currency and interest rate risk. The Group had a 5 years foreign exchange forward contract with amounts of US$376 million (approximately HK$2,905 million) to manage the Group exposure to foreign currency fluctuations.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining 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.

24 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

a. The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2015 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2014: US$500 million (approximately HK$3,890 million)) were designated as cash flow hedge of the foreign currency risk in the Group foreign currency denominated borrowings. Maturity of these swaps match with the maturity of the underlying borrowings and the Group has fixed the USD/HKD exchange rate at 7.7545-7.7550 (2014: 7.7790) for the notional amounts (see note 32(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts will be continuously released to the consolidated income statement until the repayment of the borrowings.

   During the year, the Group entered into a 5 years foreign exchange forward contract with notional contract amounts of US$376 million (approximately HK$2,905 million) (2014: nil). The contract was designated as cash flow hedge of the foreign currency risk in the Group foreign currency denominated borrowings. The Group has fixed the USD/HKD exchange rate at 7.733 (2014: nil) for the notional amounts (see note 32(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 cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK$15 million (2014: nil) for the year ended December 31, 2015.

   During the year, the Group entered into a fixed-to-fixed cross currency swap contract with notional contract amounts of Euro 200 million (approximately HK$1,665 million) (2014: nil). The contract was designated as cash flow hedge of the foreign currency risk in the Group foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Group has fixed the Euro/HKD exchange rate at 8.3245 (2014: nil) for the notional amounts (see note 32(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 cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK$17 million (2014: nil) for the year ended December 31, 2015.

b. During 2014, the Group entered into fixed-to-floating cross currency swap contracts with notional contract amounts of US$500 million (approximately HK$3,879 million). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and fixed the USD/HKD exchange rate at 7.7570 for the notional amounts (see note 32(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (see note 32(c)(ii)). During the year, the Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK$3,879 million. Accordingly, the Group had a synthetic fixed-to-fixed cross currency swap contract position and re-designated this as a cash flow hedge.

These swap and forward contracts were designated as either (i) cash flow hedges of the foreign currency risk in the Group foreign currency denominated borrowings or (ii) fair value hedges of the interest rate risk in the Group borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap and forward contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

In 2014, those fixed-to-floating swap contracts designated as fair value hedges 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, net" in the consolidated income statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to nil (2014: a loss of HK$4 million) for the year ended December 31, 2015 (see note 9).

25 SHARE CAPITAL

	2014		**2015**	
	Number of shares	Nominal value HK$ million	**Number of shares**	**Nominal Value HK$ million**
Authorized:				
Ordinary shares of US$1 each				
Beginning and end of year	650,000,000	5,070	**650,000,000**	**5,070**
Issued and fully paid:				
Ordinary shares of US$1 each				
Beginning of year	636,000,003	4,961	**636,000,005**	**4,961**
Issued during the year (note (a))	2	-	-	-
End of year	636,000,005	4,961	**636,000,005**	**4,961**

a. During the year ended December 31, 2014, the Company issued two ordinary shares of US$1 each to the sole shareholder of the Company at a premium of approximately HK$7,900 million.

26 EMPLOYEE BENEFITS

a. Employee retirement benefits - Defined contribution retirement schemes

The Group 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 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.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits

i. Share option schemes of PCCW

PCCW operates a share option scheme which was adopted by the shareholders of PCCW at the annual general meeting of PCCW held on May 8, 2014 (the "2014 Scheme"). Under the 2014 Scheme, the PCCW 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 PCCW and to encourage eligible participants to work towards enhancing the value of PCCW and its Shares for the benefit of PCCW 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 PCCW Group or any member of it, whether in full time or part time employment of the PCCW Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCCW Group or any member of it and any other person whomsoever is determined by the PCCW Board as having contributed to the development, growth or benefit of the PCCW Group or any member of it or as having spent any material time in or about the promotion of the PCCW 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 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 PCCW must not exceed 30% of the shares in issue from time to time. As at December 31, 2015, the total number of Shares available for issue in respect of which options may be granted under the 2014 Scheme is 728,229,465, representing approximately 9.56% of the Shares in issue as at that date.

(iv) The total number of Shares issued and to be issued upon exercise of options granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCCW, 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 PCCW, 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.

(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 PCCW 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.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits (continued)

i. Share option schemes of PCCW (continued)

(vii) 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 five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange.

(viii) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCCW Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

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

ii. 2011-2021 Share Stapled Units Option Scheme of the 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 "2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units. Under the 2011-2021 Option Scheme, the Trustee-Manager Board and the board of directors of HKT (the "HKT Board") shall be entitled to offer to grant a Share Stapled Unit option to any eligible participant the Trustee-Manager Board and the HKT Board may, at their absolute discretion, select. The major terms of the 2011-2021 Option Scheme are set out below:

(1) The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, 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 Group and to provide the 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 the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company 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 the Company and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.

(3) (i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 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 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company 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 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits (continued)

ii. 2011-2021 Share Stapled Units Option Scheme of the HKT Trust and HKT (continued)

As at December 31, 2015, the total number of Share Stapled Units available for issue in respect of which options may be granted under the 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 the Company, or any of their respective associates) under the 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 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 the Company, 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.

(5) The 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 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 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 the Company 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 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 five 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 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 offered or granted but the provisions of the 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 2011-2021 Option Scheme since its adoption and up to and including December 31, 2015.

iii. Share Stapled Units Award Schemes of HKT

On October 11, 2011, the Company 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 "Share Stapled Units Award Schemes"). The purposes of the 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 the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company 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 the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

The 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.

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, PCCW'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 2011-2021 Option Scheme, and all other rights or entitlements granted by the Company 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) the Company does not have a relevant general mandate or specific mandate from the holders of 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 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 the Company 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 the Company in conjunction with the Trustee-Manager as being the higher of:

(i) the closing price of the Share Stapled Units on the Stock Exchange on the trading day immediately preceding the relevant award date; and

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

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee of the 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 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.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

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

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

Awards may be made by the HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended, the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2014 and 2015.

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Group **Number of Share Stapled Units**	
	2014	**2015**
Beginning of year	7,360,797	**5,978,109**
Purchase from the market by the Trustee at the weighted average market price of HK$9.92 (2014: HK$9.05) per Share Stapled Unit	190,000	**9,326,000**
Purchase under the rights issue of HKT by the trustee at subscription price of nil (2014: HK$6.84) per Share Stapled Unit	1,007,112	**-**
Share Stapled Units vested	(2,579,800)	**(5,707,168)**
End of year	5,978,109	**9,596,941**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. 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 unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	Group			
	2014		**2015**	
	Weighted average fair value at date of award HK$	Number of Share Stapled Units	**Weighted average fair value at date of award HK$**	**Number of Share Stapled Units**
Beginning of year	7.27	2,955,982	**8.89**	**12,995,117**
Awarded (note (3))	9.03	12,962,935	**10.30**	**1,572,820**
Forfeited (note (4))	8.99	(344,000)	**9.16**	**(705,059)**
Vested (note (5))	7.71	(2,579,800)	**8.70**	**(5,707,168)**
End of year (note (2))	8.89	12,995,117	**9.27**	**8,155,710**

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

			Group	
		Fair value at	**Number of Share Stapled Units**	
Date of award	Vesting period	date of award HK$	2014	**2015**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,169,756	**-**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	732,874	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	732,583	**718,558**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	3,996,269	**-**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	3,182,201	**2,949,476**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	3,181,434	**2,948,821**
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**
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**
			12,995,117	**8,155,710**

The unvested Share Stapled Units at December 31, 2015 had a weighted average remaining vesting period of 0.73 years (2014: 1.04 years).

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

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

Date of award	Vesting period	Fair value at date of award HK$	Group Number of Share Stapled Units 2014	**2015**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	741,687	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	741,389	**-**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	814,068	**-**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	4,098,245	**-**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	3,284,177	**-**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	3,283,369	**-**
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	-	**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**
			12,962,935	**1,572,820**

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

Date of award	Vesting period	Fair value at date of award HK$	Group Number of Share Stapled Units 2014	**2015**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	6,647	**-**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	13,847	**1,760**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	8,813	**4,041**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,806	**14,025**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	101,976	**188,004**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	101,976	**232,725**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	101,935	**232,613**
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	-	**855**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	-	**855**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	-	**15,106**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	-	**15,075**
			344,000	**705,059**

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

Date of award	Vesting period	Fair value at date of award HK$	Group Number of Share Stapled Units 2014	**2015**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	588,460	**-**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,177,272	**-**
March 21,2013	March 21, 2013 to March 21, 2015	7.59	-	**1,167,996**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	-	**728,833**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	814,068	**-**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	-	**3,808,265**
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	-	**2,074**
			2,579,800	**5,707,168**

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

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

During the year, share-based compensation expenses of HK$48 million (2014: HK$68 million) is recognized for the HKT Share Stapled Units Award Schemes in the consolidated income statement and obligation in liabilities of HK$48 million (2014: HK$68 million) is recognized.

iv. Share award schemes of PCCW

PCCW 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 PCCW Group and to attract suitable personnel for further development of the PCCW Group.

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

The PCCW Share Award Schemes are administered by the relevant committee of the PCCW 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 PCCW 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 PCCW Board may resolve to increase such limit at its sole discretion.

In respect of the Purchase Scheme, the relevant committee of the PCCW 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 PCCW 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 PCCW Group's resources and the Trustee will then apply the same towards the purchase of the relevant Shares/Share Stapled Units on the Stock Exchange pursuant to the trust deed.

In respect of the Subscription Scheme, the relevant committee of the PCCW 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 PCCW Board must then pay (or cause to be paid) an amount sufficient to subscribe for that number of Shares/Share Stapled Units from PCCW'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 PCCW Board pursuant to the trust deed. No Shares/Share Stapled Units shall be allotted unless and until PCCW 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 PCCW Board and/or the HKT Board (as the case may be), and the shareholders of PCCW and/or the holders of the Share Stapled Units (where required).

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant Shares/Share Stapled Units are held in trust for that employee and then shall vest over a period of time determined by the relevant committee of the PCCW 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 PCCW 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 PCCW 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 held by the Group under the PCCW Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Group Number of PCCW shares	
	2014	**2015**
Beginning of year	5,487,130	**7,393,665**
Purchase from the market by the Trustee at the weighted average market price of HK$4.99 (2014: nil) per PCCW share	-	**1,600,000**
PCCW shares obtained under the PCCW Subscription Scheme	5,000,000	**-**
PCCW shares vested	(3,092,530)	**(3,543,570)**
Transfer to grantees in lieu of cash dividends	(935)	**(1,054)**
End of year	7,393,665	**5,449,041**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

Details of PCCW shares awarded pursuant to the PCCW share award schemes during the year and the unvested PCCW shares are as follows:

(1) Movements in the number of unvested PCCW shares and their related weighted average fair value on the date of award

	Group			
	2014		**2015**	
	Weighted average fair value at date of award HK$	Number of PCCW shares	**Weighted average fair value at date of award HK$**	**Number of PCCW shares**
The PCCW Purchase Scheme:				
Beginning of year	3.43	5,062,070	**3.72**	**2,659,132**
Awarded (note (3))	3.99	715,566	**5.35**	**1,042,482**
Forfeited (note (4))	3.62	(25,974)	**3.62**	**(2,517)**
Vested (note (5))	3.32	(3,092,530)	**3.68**	**(2,298,835)**
End of year (note (2))	3.72	2,659,132	**5.00**	**1,400,262**
The PCCW Subscription Scheme:				
Beginning of year	-	-	**3.99**	**2,515,253**
Awarded (note (3))	3.99	2,582,240	**5.35**	**2,033,480**
Forfeited (note (4))	3.99	(66,987)	**4.62**	**(127,461)**
Vested (note (5))	-	-	**3.99**	**(1,244,735)**
End of year (note (2))	3.99	2,515,253	**4.84**	**3,176,537**
Total		5,174,385		**4,576,799**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(2) Terms of unvested PCCW shares held by the Group at end of the reporting period

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2014	**2015**
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	1,943,566	**-**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	357,786	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	**357,780**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	**521,244**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	**521,238**
			2,659,132	**1,400,262**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	1,257,872	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,257,381	**1,202,293**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	**987,542**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	**986,702**
			2,515,253	**3,176,537**
Total			5,174,385	**4,576,799**

The PCCW shares unvested at December 31, 2015 had a weighted average remaining vesting period of 0.66 years (2014: 0.57 years).

(3) Details of PCCW shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2014	**2015**
The PCCW Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	357,786	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	**-**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	**521,244**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	**521,238**
			715,566	**1,042,482**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	1,291,377	**-**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,290,863	**-**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	**1,017,183**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	**1,016,297**
			2,582,240	**2,033,480**
Total			3,297,806	**3,075,962**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(4) Details of PCCW shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2014	**2015**
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	10,484	-
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	15,490	**2,517**
			25,974	**2,517**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	33,505	**13,137**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	33,482	**55,088**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	-	**29,641**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	-	**29,595**
			66,987	**127,461**
Total			92,961	**129,978**

(5) Details of PCCW shares vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2014	**2015**
The PCCW Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	1,143,842	-
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	1,948,688	-
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**1,941,049**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	-	**357,786**
			3,092,530	**2,298,835**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	-	**1,244,735**

The fair value of the PCCW shares awarded during the year at the measurement dates is measured by the quoted market price of the PCCW shares at the respective award dates.

During the year, share-based compensation expenses of HK$12 million (2014: HK$19 million) is recognized in the consolidated income statement and HK$12 million (2014: HK$19 million) is recognized as an obligation in liabilities.

27 RESERVES

In HK$ million	Group 2014								
	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	Retained profits	Total
At January 1, 2014	13,865	28	423	(695)	114	164	(31)	4,348	18,216
Comprehensive income/ (loss)									
Profit for the year	-	-	-	-	-	-	-	2,994	2,994
Other comprehensive income/ (loss)									
Items that may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	(147)	-	-	-	-	-	(147)
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	-	-	(79)	-	-	-	-	-	(79)
Available-for-sale financial assets - changes in fair value (note 20)	-	-	-	-	-	(110)	-	-	(110)
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	(18)	-	-	-	(18)
- transfer from equity to consolidated income statement	-	-	-	-	(24)	-	-	-	(24)
Total comprehensive income/ (loss) for the year	-	-	(226)	-	(42)	(110)	-	2,994	2,616
Transactions with equity holders									
Contributions by and distributions to equity holders:									
Receipt of PCCW shares under the PCCW Subscription Scheme	-	-	-	-	-	-	21	-	21
Second interim dividend paid in respect of previous year (note 12)	-	-	-	-	-	-	-	(1,553)	(1,553)
Interim dividend paid in respect of the current year (note 12)	-	-	-	-	-	-	-	(1,590)	(1,590)
Issue of ordinary shares (note 25)	7,900	-	-	-	-	-	-	-	7,900
Total transactions with equity holders	7,900	-	-	-	-	-	21	(3,143)	4,778
At December 31, 2014	21,765	28	197	(695)	72	54	(10)	4,199	25,610

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES *(CONTINUED)*

In HK$ million	Group 2015								
	Share premium	**Capital contribution reserve**	**Currency translation reserve**	**Merger reserve**	**Hedging reserve**	**Available-for-sale financial assets reserve**	**Other reserve**	**Retained profits**	**Total**
At January 1, 2015	**21,765**	**28**	**197**	**(695)**	**72**	**54**	**(10)**	**4,199**	**25,610**
Comprehensive income/ (loss)									
Profit for the year	-	-	-	-	-	-	-	**3,921**	**3,921**
Other comprehensive income/ (loss)									
Items that may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	**(106)**	-	-	-	-	-	**(106)**
Available-for-sale financial assets - changes in fair value (note 20)	-	-	-	-	-	**(54)**	-	-	**(54)**
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	**(263)**	-	-	-	**(263)**
- transfer from equity to consolidated income statement	-	-	-	-	**(77)**	-	-	-	**(77)**
Total comprehensive income/ (loss) for the year	-	-	**(106)**	-	**(340)**	**(54)**	-	**3,921**	**3,421**
Transactions with equity holders									
Contributions by and distributions to equity holders:									
Final dividend paid in respect of previous year (note 12)	-	-	-	-	-	-	-	**(1,764)**	**(1,764)**
Interim dividend paid in respect of the current year (note 12)	-	-	-	-	-	-	-	**(1,953)**	**(1,953)**
Total transactions with equity holders	-	-	-	-	-	-	-	**(3,717)**	**(3,717)**
At December 31, 2015	**21,765**	**28**	**91**	**(695)**	**(268)**	-	**(10)**	**4,403**	**25,314**

27 RESERVES *(CONTINUED)*

In HK$ million	The Company 2014		
	Share premium	Retained profits	Total
At January 1, 2014	13,865	559	14,424
Profit for the year	-	3,143	3,143
Interim dividend paid in respect of current year (note 12)	-	(1,590)	(1,590)
Second interim dividend paid in respect of previous year (note 12)	-	(1,553)	(1,553)
Issue of ordinary shares (note 25(a))	7,900	-	7,900
At December 31, 2014	21,765	559	22,324

In HK$ million	The Company **2015**		
	Share premium	**Retained profits**	**Total**
At January 1, 2015	**21,765**	**559**	**22,324**
Profit for the year	**-**	**3,717**	**3,717**
Interim dividend paid in respect of current year (note 12)	**-**	**(1,953)**	**(1,953)**
Final dividend paid in respect of previous year (note 12)	**-**	**(1,764)**	**(1,764)**
At December 31, 2015	**21,765**	**559**	**22,324**

28 DEFERRED INCOME TAX

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

In HK$ million	Group 2014			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	1,793	(362)	21	1,452
Credited to the consolidated income statement (note 11(a))	(2)	-	(13)	(15)
Additions upon business combinations	785	-	-	785
Exchange differences	-	-	(2)	(2)
End of year	2,576	(362)	6	2,220

28 DEFERRED INCOME TAX *(CONTINUED)*

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

In HK$ million	Group 2015			
	Accelerated tax depreciation and amortization	**Tax losses**	**Others**	**Total**
Beginning of year	**2,576**	**(362)**	**6**	**2,220**
(Credited)/charged to the consolidated income statement (note 11(a))	**(32)**	**137**	**2**	**107**
Additions upon business combinations	**-**	**(8)**	**-**	**(8)**
Exchange differences	**-**	**-**	**2**	**2**
End of year	**2,544**	**(233)**	**10**	**2,321**

In HK$ million	Group 2014	Group **2015**
Deferred income tax assets:		
- to be recovered after more than 12 months	(280)	**(74)**
- to be recovered within 12 months	(91)	**(157)**
Deferred income tax assets recognized in the consolidated statement of financial position	(371)	**(231)**
Deferred income tax liabilities:		
- to be recovered after more than 12 months	2,349	**2,279**
- to be recovered within 12 months	242	**273**
Deferred income tax liabilities recognized in the consolidated statement of financial position	2,591	**2,552**
Deferred income tax liabilities (net)	2,220	**2,321**

b. The Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$3,600 million as at December 31, 2015 (2014: HK$4,448 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$4 million as at December 31, 2015 (2014: HK$14 million) will expire within 1 to 5 years. Estimated adjusted tax losses of HK$804 million as at December 31, 2015 will expire after 5 years (2014: HK$822 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

29 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2015, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million	Group					
	2014			**2015**		
	Present value of the minimum annual fees	Interest expense relating to future period	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future period**	**Total minimum annual fees**
Repayable within a period						
- not exceeding one year	433	30	463	**452**	**30**	**482**
- over one year, but not exceeding two years	375	69	444	**123**	**19**	**142**
- over two years, but not exceeding five years	307	117	424	**312**	**112**	**424**
- over five years	272	171	443	**192**	**100**	**292**
	1,387	387	1,774	**1,079**	**261**	**1,340**
Less: Amounts repayable within one year included under current liabilities	(433)	(30)	(463)	**(452)**	**(30)**	**(482)**
	954	357	1,311	**627**	**231**	**858**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 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	Group	
	2014	**2015**
Profit before income tax	3,297	**4,551**
Adjustments for:		
Interest income	(53)	**(63)**
Finance costs	1,210	**1,324**
Cash flow hedges: transferred from equity	1	**1**
Cash flow hedges: changes in fair value	-	**32**
Fair value hedges: changes in fair value	4	**-**
Impact of re-designation of fair value hedges	-	**16**
Net gain on cash flow hedging instruments transferred from equity	(22)	**(67)**
Net gain on fair value hedging instruments	(47)	**(48)**
Other (gain)/loss	(47)	**2**
Depreciation of property, plant and equipment	3,071	**1,854**
Loss/(gain) on disposals of property, plant and equipment, net	2	**(5)**
Gain on disposal of a subsidiary	(55)	**-**
Provision for inventory obsolescence	10	**8**
Impairment loss for doubtful debts	164	**284**
Amortization of intangible assets	2,802	**4,335**
Amortization of land lease premium	13	**13**
Share of results of joint ventures	(5)	**9**
Share of results of an associate	35	**27**
Impairment loss on an interest in an associate	52	**95**
Share-based payment and post employment benefit	91	**60**
Decrease/(increase) in operating assets		
- inventories	472	**16**
- trade receivables	(138)	**177**
- prepayments, deposits and other current assets	(428)	**(452)**
- restricted cash	-	**(10)**
- amounts due from related companies	3	**56**
- other non-current assets	4	**9**
(Decrease)/increase in operating liabilities		
- trade payables, accruals and other payables	(595)	**(709)**
- other long-term liabilities	24	**-**
- advances from customers	(186)	**58**
- amount due to a related company	(42)	**(40)**
- deferred income (non-current)	18	**46**
Cash generated from operations	9,655	**11,579**
Interest received	20	**11**
Income tax paid	(299)	**(160)**
Net cash generated from operating activities	9,376	**11,430**

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

b. Additions upon business combinations

In HK$ million

	2014	**2015**
Purchase consideration	20,029	**198**
Net assets/(liabilities) acquired:		
Property, plant and equipment	1,993	**56**
Intangible assets	6,391	**12**
Inventories, trade receivables, prepayments, deposits and other current assets	1,776	**17**
Cash and cash equivalents	1,186	**1**
Trade payables, accruals, other payables and advances from customers	(4,085)	**(41)**
Current income tax liabilities	(14)	**-**
Deferred income tax (liabilities)/assets	(785)	**8**
Deferred income	(64)	**-**
Non-controlling interests	(36)	**-**
Defined benefit assets	26	**-**
Interest in a joint venture	14	**-**
	6,402	**53**
Goodwill on acquisition	13,627	**145**
Analysis of net outflow of cash and cash equivalents in respect of additions upon business combinations:		
Purchase consideration	20,029	**172**
Add: Settlement of obligation assumed upon business combinations	-	**26**
Less: Consideration payable	(74)	**(4)**
	19,955	**194**
Cash and cash equivalents of subsidiaries acquired	(1,186)	**(1)**
Net outflow	18,769	**193**
Settlement of contingent consideration upon business combinations	-	**77**

c. Major non-cash transactions

During the year ended December 31, 2015, return on investment of a joint venture of approximately nil (2014: HK$55 million) was received by a fellow subsidiary on behalf of the Group.

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

d. Analysis of cash and cash equivalents

In HK$ million	Group	
	2014	**2015**
Cash and bank balances	3,510	**3,743**
Cash and cash equivalents as at December 31,	3,510	**3,743**

31 CAPITAL MANAGEMENT

The Group primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Group, 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 operation.

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

The Group is not subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

32 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	Group 2014				
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Available-for-sale financial assets	-	-	-	61	61
Financial assets at fair value through profit or loss	-	41	-	-	41
Other non-current assets	25	-	-	-	25
	25	41	-	61	127
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	3,538	-	-	-	3,538
Trade receivables, net	3,875	-	-	-	3,875
Financial assets at fair value through profit or loss	-	59	-	-	59
Amounts due from related companies	76	-	-	-	76
Derivative financial instruments	-	-	49	-	49
Cash and cash equivalents	3,510	-	-	-	3,510
	10,999	59	49	-	11,107
Total	11,024	100	49	61	11,234

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	Group 2014		
	Derivative used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	-	3,877	3,877
Trade payables	-	1,979	1,979
Accruals and other payables	-	5,030	5,030
Carrier licence fee liabilities	-	433	433
Amount due to a related company	-	94	94
Amounts due to fellow subsidiaries and the immediate holding company	-	7,824	7,824
	-	19,237	19,237
Non-current liabilities			
Long-term borrowings	-	32,549	32,549
Derivative financial instruments	100	-	100
Carrier licence fee liabilities	-	954	954
Other long-term liabilities	-	136	136
	100	33,639	33,739
Total	100	52,876	52,976

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million

	Loans and receivables	Asset at fair value through profit or loss	Available for-sale financial assets	Total
Non-current assets				
Available-for-sale financial assets	-	-	7	7
Financial assets at fair value through profit or loss	-	62	-	62
Other non-current assets	102	-	-	102
	102	62	7	171
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	3,944	-	-	3,944
Trade receivables, net	3,422	-	-	3,422
Financial assets at fair value through profit or loss	-	58	-	58
Amounts due from related companies	73	-	-	73
Cash and cash equivalents	3,743	-	-	3,743
	11,182	58	-	11,240
Total	11,284	120	7	11,411

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	Group 2015 Derivative used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	-	3,879	3,879
Trade payables	-	2,194	2,194
Accruals and other payables	-	4,899	4,899
Carrier licence fee liabilities	-	452	452
Amount due to a related company	-	72	72
Amounts due to fellow subsidiaries and the immediate holding company	-	7,795	7,795
	-	19,291	19,291
Non-current liabilities			
Long-term borrowings	-	32,436	32,436
Derivative financial instruments	443	-	443
Carrier licence fee liabilities	-	627	627
Other long-term liabilities	-	285	285
	443	33,348	33,791
Total	443	52,639	53,082

In HK$ million	The Company Loans and receivables 2014	**2015**
Current assets		
Amount due from the immediate holding company	91	**91**
Amounts due from subsidiaries	3,324	**3,324**
Total	3,415	**3,415**

In HK$ million	The Company Other financial liabilities at amortized cost 2014	**2015**
Current liabilities		
Amounts due to subsidiaries	1,424	**1,424**
Total	1,424	**1,424**

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.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, 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, 2014 and 2015, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22(b).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2014 and 2015, the amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 34, 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 obligation to guarantee performance of its subsidiaries in the normal course of business. Please refer to note 34 for details.

The following table details 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 and the Company can be required to pay:

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	Group 2014					
	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	(3,992)	-	-	-	(3,992)	(3,877)
Trade payables	(1,979)	-	-	-	(1,979)	(1,979)
Accruals and other payables	(5,030)	-	-	-	(5,030)	(5,030)
Carrier licence fee liabilities	(463)	-	-	-	(463)	(433)
Amount due to a related company	(94)	-	-	-	(94)	(94)
Amounts due to fellow subsidiaries and the immediate holding company	(7,824)	-	-	-	(7,824)	(7,824)
	(19,382)	-	-	-	(19,382)	(19,237)
Non-current liabilities						
Long-term borrowings	(659)	(12,212)	(18,013)	(4,195)	(35,079)	(32,549)
Derivative financial instruments	45	10	(87)	(85)	(117)	(100)
Carrier licence fee liabilities	-	(444)	(424)	(444)	(1,312)	(954)
Other long-term liabilities	(14)	(18)	(53)	(107)	(192)	(136)
	(628)	(12,664)	(18,577)	(4,831)	(36,700)	(33,739)
Total	(20,010)	(12,664)	(18,577)	(4,831)	(56,082)	(52,976)

In HK$ million	**Group 2015**					
	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	**(3,907)**	**-**	**-**	**-**	**(3,907)**	**(3,879)**
Trade payables	**(2,194)**	**-**	**-**	**-**	**(2,194)**	**(2,194)**
Accruals and other payables	**(4,852)**	**-**	**-**	**-**	**(4,852)**	**(4,852)**
Carrier licence fee liabilities	**(482)**	**-**	**-**	**-**	**(482)**	**(452)**
Amount due to a related company	**(72)**	**-**	**-**	**-**	**(72)**	**(72)**
Amounts due to fellow subsidiaries and the immediate holding company	**(7,795)**	**-**	**-**	**-**	**(7,795)**	**(7,795)**
	(19,302)	**-**	**-**	**-**	**(19,302)**	**(19,244)**
Non-current liabilities						
Long-term borrowings	**(616)**	**(4,138)**	**(18,864)**	**(14,954)**	**(38,572)**	**(32,436)**
Derivative financial instruments (note (i))	**(38)**	**(36)**	**(110)**	**(156)**	**(340)**	**(443)**
Carrier licence fee liabilities	**-**	**(142)**	**(424)**	**(292)**	**(858)**	**(627)**
Other long-term liabilities (note (ii))	**(18)**	**(39)**	**(3)**	**(1,025)**	**(1,085)**	**(285)**
	(672)	**(4,355)**	**(19,401)**	**(16,427)**	**(40,855)**	**(33,791)**
Total	**(19,974)**	**(4,355)**	**(19,401)**	**(16,427)**	**(60,157)**	**(53,035)**

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

(i) As at December 31, 2015, derivative financial instruments of HK$16 million (2014: nil) related to the 5 years foreign exchange forward contract with notional contract amounts of US$376 million (approximately HK$2,905 million), which were designated as cash flow hedge of US$300 million zero coupon guaranteed notes due 2030 . These guaranteed notes may be redeemed at the option of the Group on January 15, 2020 at an early redemption amount of US$376 million. Please refer to note 23(c) and note 24(a) for details of the guaranteed notes and the foreign exchange forward contract respectively.

(ii) As at December 31, 2015, other long-term liabilities included HK$47 million (2014: nil) of long term interest payable, which related to interest drawn under a 12 years arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amounts of Euro 200 million (approximately HK$1,665 million). Please refer to note 23(e) and note 24(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

In HK$ million	The Company					
	2014			**2015**		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying Amount	**Within 1 year or on demand**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Amounts due to subsidiaries	(1,424)	(1,424)	(1,424)	**(1,424)**	**(1,424)**	**(1,424)**
Total	(1,424)	(1,424)	(1,424)	**(1,424)**	**(1,424)**	**(1,424)**

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposures deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap 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 Finance and Management Committee, a sub-committee of the Executive Committee of the HKT board, 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 Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses 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 exposures. 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 either Hong Kong dollars or United States dollars or Euro. As at December 31, 2014 and 2015, a majority of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap contract and foreign exchange forward contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group borrowings. Certain portion of the cross currency swap contract and foreign exchange forward contracts outstanding as at December 31, 2015 with an aggregate notional contract amount of US$1,376 million (approximately HK$10,661 million) (2014: US$1,000 million (approximately HK$7,769 million)) and Euro 200 million (approximately HK$1,665 million) (2014: nil) were designated as cash flow hedges against foreign currency risk.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

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

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

In HK$ million	Group					
	2014			**2015**		
	United States Dollars	Euro	Renminbi	**United States Dollars**	**Euro**	**Renminbi**
Trade receivables	1,053	54	106	**1,400**	**197**	**139**
Amounts due from related companies	-	-	11	**-**	**-**	**8**
Cash and cash equivalents	854	63	63	**525**	**37**	**94**
Trade payables	(975)	(59)	(40)	**(1,474)**	**(61)**	**(40)**
Amount due to a related company	(94)	-	-	**(72)**	**-**	**-**
Short-term borrowings	(3,877)	-	-	**(3,879)**	**-**	**-**
Long-term borrowings	(7,618)	-	-	**(9,840)**	**(1,666)**	**-**
Gross exposure arising from recognized financial (liabilities)/assets	(10,657)	58	140	**(13,340)**	**(1,493)**	**201**
Net financial liabilities denominated in respective group entities' functional currencies	(276)	(47)	(149)	**(203)**	**(52)**	**(212)**
Borrowings covered by cross currency swap and foreign exchange forward contracts designated as fair value or cash flow hedges	7,760	-	-	**9,840**	**1,666**	**-**
Overall net exposure	(3,173)	11	(9)	**(3,703)**	**121**	**(11)**

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2015, the profit after tax of the Group for the year ended December 31, 2015 would have decreased/increased by approximately HK$31 million (2014: HK$26 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK$98 million (2014: HK$39 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

If the Hong Kong dollar had weakened/strengthened by 5% against the Renminbi, with all other variables held constant as at December 31, 2015, there would be no material impact on the Group's profit after tax for the year ended December 31, 2015.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

If the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant as at December 31, 2015, the profit after tax of the Group for the year ended December 31, 2015 would have increased/decreased by approximately HK$5 million (2014: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK$83 million (2014: nil) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had as at the end of the reporting period and had been applied to the Group's exposure to currency risk for recognized assets and liabilities in existence at the dates, 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 periods until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2014 and 2015.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain fixed rate long-term borrowings. During the year ended December 31, 2015, the Group entered into floating-to-fixed swap contracts, therefore the Group had a synthetic fixed to fixed cross-currency swap position and re-designated it as cash flow hedging instrument accordingly.

The following table details the interest rate profile of the Group's borrowings as at the end of the reporting periods, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	Group			
	2014		**2015**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term borrowings with/without cash flow hedging instruments	5.42	3,877	**3.17**	**3,879**
Long-term borrowings with/without cash flow hedging instruments	3.17	3,924	**4.02**	**11,506**
Variable rate borrowings:				
Bank borrowings	1.56	24,931	**1.57**	**20,930**
Long-term borrowings with fair value hedging instruments	3.95	3,694	**-**	**-**
Intercompany loan	0.52	7,437	**0.53**	**7,437**
Total borrowings		43,863		**43,752**

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 20 basis points as at December 31, 2015 (2014: 10 basis points), with all other variables held constant, the Group's profit after tax for the year ended December 31, 2015 would have decreased/increased by approximately HK$39 million (2014: HK$26 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 as 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 those dates. The 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 is performed on the same basis for the years ended December 31, 2014 and 2015.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 20) and financial assets at fair value through profit or loss (note 21). The investments are listed on a recognized stock exchange.

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

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2014 and 2015 except as follows:

In HK$ million	Group			
	2014		**2015**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	3,877	3,963	**3,879**	**3,890**
Long-term borrowings	32,549	32,757	**32,436**	**32,600**

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the borrowing rates. The fair values are within level 2 of the fair value hierarchy (see note 32(e)).

e. Estimation of fair values

The table below analyzes 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 that are observable 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).

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value:

In HK$ million	Group 2014 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
- Listed equity securities	61	-	-	61
Financial assets at fair value through profit or loss	100	-	-	100
Derivative financial instruments	-	49	-	49
Total assets	161	49	-	210
Liability				
Derivative financial instruments	-	(100)	-	(100)

In HK$ million	Group **2015** **Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
- Listed equity securities	**7**	**-**	**-**	**7**
Financial assets at fair value through profit or loss	**120**	**-**	**-**	**120**
Derivative financial instruments	**-**	**-**	**-**	**-**
Total assets	**127**	**-**	**-**	**127**
Liability				
Derivative financial instruments	**-**	**(443)**	**-**	**(443)**

The fair value of financial instruments traded in active markets is based on quoted market prices as 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 available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc and financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is 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. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flow discounted at the market quoted swap rates.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2014 and 2015.

f. The Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

33 COMMITMENTS

a. Capital

In HK$ million	Group 2014	**2015**
Authorized and contracted for acquisition of property, plant and equipment	656	**635**

b. Operating leases

As at December 31, 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	Group 2014	**2015**
Within 1 year	1,240	**1,023**
After 1 year but within 5 years	1,125	**807**
After 5 years	10	**3**
	2,375	**1,833**

Network capacity and equipment

In HK$ million	Group 2014	**2015**
Within 1 year	1,283	**1,134**
After 1 year but within 5 years	744	**807**
After 5 years	264	**266**
	2,291	**2,207**

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2015 (2014: 1 to 11 years). None of the leases include contingent rentals.

c. Others

As at December 31, 2015, the Group has other outstanding commitments as follows:

In HK$ million	Group 2014	**2015**
Operating expenditure commitment	2,177	**2,171**
	2,177	**2,171**

34 CONTINGENT LIABILITIES

In HK$ million	Group	
	2014	**2015**
Performance guarantees	2,076	**2,108**
Tender guarantees	52	**-**
Guarantees given to banks in respect of credit facilities granted to an associate	62	**60**
Others	12	**5**
	2,202	**2,173**

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow 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.

35 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2015 were HK$26,671 million (2014: HK$29,377 million) of which the unused facilities amounted to HK$5,527 million (2014: HK$4,230 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group's regularly monitors their compliance with these covenants. As at December 31, 2015, 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 32(b).

Summaries of major borrowings are set out in notes 22(d) and 23.

36 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2015

i. Acquisition of Keycom plc and its subsidiaries (“Keycom”)

On April 7, 2015, the Group acquired approximately 92.9 % of the then issued ordinary share capital of Keycom plc and increased its interest to 100 % by the end of June 2015 for a total consideration of approximately £16.6 million (approximately HK$196 million). Keycom plc is a company engaged in the design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom. A payment of approximately £16.3 million (approximately HK$192 million) has been made by the Group as at December 31, 2015. The purpose of the acquisition is to expand the Group’s business to meet the growing demand for ubiquitous broadband connectivity through building resilient high availability wireless and wired network in the United Kingdom.

The Group is required to recognize the acquired companies’ identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In preparation of these consolidated financial statements, the Group recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group’s 2016 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2016.

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

In HK$ million	Net assets 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. As a result of the acquisition, the Group is expected to grow and expand its broadband connectivity business in the United Kingdom via the strong, well-established business with a talented leadership team and employees of Keycom.

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

36 BUSINESS COMBINATIONS *(CONTINUED)*

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

i. Acquisition of Keycom plc and its subsidiaries ("Keycom") *(continued)*

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

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

In HK$ million	**Estimated fair value**
Property, plant and equipment	**56**
Intangible assets	**12**
Deferred income tax assets	**8**
Trade receivables, prepayments, deposits, and other current assets	**17**
Cash and cash equivalents	**1**
Trade payables, accruals and other payables	**(30)**
Advances from customers	**(11)**
Net assets acquired	**53**

In HK$ million	**Net cash outflow**
Purchase consideration settled in cash	**166**
Settlement of obligation assumed upon business combination	**26**
	192
Cash and cash equivalents acquired	**(1)**
Total net cash outflow for the year ended December 31, 2015	**191**

(ii) Acquisition-related costs

Acquisition-related costs of approximately HK$5 million were included in the consolidated income statement for the year ended December 31, 2015.

(iii) Revenue and profit contribution

Keycom's revenue and loss attributable to shareholders for the period from January 1, 2015 to the acquisition date were HK$24 million and HK$2 million, respectively. The business of Keycom has been integrated into the Group since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of Keycom to the revenue and profit of the Group during the year ended December 31, 2015 on any reasonable basis.

ii. 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.

36 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2014

i. Acquisition of CSL Holdings Limited and its subsidiaries (together the "CSL Group")

On May 14, 2014, the Group acquired businesses of CSL Group and an indirect subsidiary of CSL Holdings Limited which comprises of the telecommunications services through 4G, 3G and 2G networks, and the sales of mobile telecommunications products, to customers in Hong Kong at the aggregate consideration of approximately HK$20,054 million from fellow subsidiaries of the Group. The Group has applied HKFRS 3 Business Combination to account for such acquisition.

The Group is required to recognize the acquired identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process has been finalized. The initial accounting for the acquisition of the CSL Group was completed as at May 14, 2015. In completing the initial accounting, an addition of HK$37 million of goodwill has been recorded compared to the provisional amount previously disclosed as a result of additional information with respect to the finalization of the contingent consideration payable.

(i) Details of net assets acquired and goodwill in respect of acquisitions of businesses of CSL Group and an indirect subsidiary of CSL Holdings Limited at the acquisition date were as follows:

In HK$ million	**Net assets acquired and goodwill**
Aggregate purchase consideration	**20,054**
Less: Fair value of net assets acquired	**(6,402)**
Goodwill on acquisition	**13,652**

The goodwill is attributable to the expected future profits generated from the telecommunications business strengthened by enhancement of mobile services income stream through increased economies of scale, enlargement of service capacity and improvement of indoor signal coverage and customer experience, strengthening of roaming business and opportunity to realize operational synergies.

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

36 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2014 *(Continued)*

i. Acquisition of CSL Holdings Limited and its subsidiaries (together the "CSL Group") *(Continued)*

(i) Details of net assets acquired and goodwill in respect of acquisitions of businesses of CSL Group and an indirect subsidiary of CSL Holdings Limited at the acquisition date were as follows: (continued)

In HK$ million	**Fair value**
Property, plant and equipment	**1,992**
Intangible assets	**6,391**
Interests in a joint venture	**14**
Prepayments, deposits, trade receivables, net and other current and non-current assets	**1,574**
Defined benefit assets	**26**
Inventories	**202**
Cash and cash equivalents	**1,186**
Trade payables	**(287)**
Accruals, other payables and carrier licence fee liabilities (current and non-current)	**(3,175)**
Advances from customers	**(622)**
Deferred income	**(64)**
Current income tax liabilities	**(14)**
Deferred income tax liabilities	**(785)**
	6,438
Non-controlling interests	**(36)**
Net assets acquired	**6,402**

In HK$ million	**Net cash outflow**
Purchase considerations:	
Settled in cash during 2014	**19,943**
Settled in cash during 2015	**77**
	20,020
Cash and cash equivalents acquired	**(1,186)**
	18,834

(ii) Revenue and profit contribution

CSL Group's revenue and profit attributable to equity holders of the Company for the period from January 1, 2014 to the acquisition date were HK$2,942 million and HK$371 million, respectively. The business of the CSL Group has been integrated into the Group since its acquisition date. Accordingly, it is not practical to quantify the individual contribution of the CSL Group to the revenue and profit of the Group during the year ended December 31, 2014 on any reasonable basis.

ii. Acquisition of Crypteia Networks S.A.

On October 20, 2014, the Group completed the acquisition of the entire issued share capital of Crypteia Networks S.A., a private company incorporated in Greece. Leverage on acquiree's advanced cyber threat detective capabilities, the acquisition helps to position the Group as a leading network security player in the market. The aggregate consideration was not material to the Group.

37 DISPOSAL OF INTERESTS IN A SUBSIDIARY

On October 14, 2014, the Group entered into a sale and purchase agreement pursuant to which the Group has agreed to sell its entire equity interest in Zhong Ying JV, an indirect non wholly-owned subsidiary of the Company, to an independent third party for an aggregated consideration of RMB180 million (equivalent to approximately HK$225 million).

The transaction was completed in December 2014.

Details of net assets disposed of and the gain on disposal of interests in Zhong Ying JV at the date of disposal were as follows:

In HK$ million	**Net assets disposed of and the gain**
Consideration received from disposal of interests in Zhong Ying JV	**225**
PRC withholding tax	**(14)**
Carrying amount of net assets disposed of	**(199)**
Direct expenses in related to disposal	**(36)**
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	**79**
Gain on disposal recognized in the consolidated income statement (note 7)	**55**

The assets and liabilities of Zhong Ying JV at the date of disposal were as follows:

In HK$ million	Note	**Carrying amount**
Property, plant and equipment	13	**5**
Inventories		**117**
Prepayments, deposits and other current assets		**58**
Trade receivables, net		**234**
Cash and cash equivalents		**191**
Advance from customers		**(177)**
Trade payables, accruals and other payables		**(98)**
Current income tax liabilities		**(7)**
		323
Non-controlling interests		**(124)**
Net assets disposed of		**199**

In HK$ million	**Net cash inflow**
Consideration received in cash, net of PRC withholding tax	**211**
Cash and cash equivalents of Zhong Ying JV disposed of	**(191)**
	20

38 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2015 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements – Disclosure Initiative	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment - Agriculture: Bearer Plants	January 1, 2016
HKAS 27 (2011) (Amendment)	Separate Financial Statements - Equity Method in Separate Financial Statements	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKAS 38 (Amendment)	Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 41 (Amendment)	Agriculture: Bearer Plants	January 1, 2016

38 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015 *(CONTINUED)*

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2015 and which have not been early adopted in these financial statements: (continued)

		Effective for accounting periods beginning on or after
HKFRS 10 (Amendment)	Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKFRS 11 (Amendment)	Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
HKFRS 12 (Amendment)	Disclosure of Interests in Other Entities - Investment Entities: Applying the Consolidation Exception	January 1, 2016
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA		January 1, 2016

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2015 and have not been early adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, new interpretations and the new ordinances would have a significant impact on the Group's results of operations and financial position.

The selected financial information of Hong Kong Telecommunications (HKT) Limited presented below as at and for the two years ended 31 December 2014 and 31 December 2015 has been extracted from the audited consolidated financial statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2015.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2014	**2015**
Revenue	14,133	**15,100**
Cost of sales	(3,569)	**(3,434)**
General and administrative expenses	(8,209)	**(7,316)**
Other gains, net	77	**115**
Finance costs, net	(927)	**(1,318)**
Share of results of a joint venture	(11)	**(5)**
Profit before income tax	1,494	**3,142**
Income tax	(244)	**(537)**
Profit for the year	1,250	**2,605**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2014	**2015**
Profit for the year	1,250	**2,605**
Other comprehensive loss		
Items that may be reclassified subsequently to consolidated income statement:		
Cash flow hedges:		
- effective portion of changes in fair value	(18)	**(263)**
- transfer from equity to consolidated income statement	(24)	**(77)**
Other comprehensive loss for the year	(42)	**(340)**
Total comprehensive income for the year	1,208	**2,265**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2014					
	Share premium	Hedging reserve	Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2014	7,457	114	28	(695)	7,185	14,089
Comprehensive income/(loss)						
Profit for the year	-	-	-	-	1,250	1,250
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(18)	-	-	-	(18)
- transfer from equity to consolidated income statement	-	(24)	-	-	-	(24)
Total other comprehensive loss	-	(42)	-	-	-	(42)
Total comprehensive income/(loss) for the year	-	(42)	-	-	1,250	1,208
Transaction with equity holders						
Transfer to share capital upon transition to no-par value regime on March 3, 2014	(7,457)	-	-	-	-	(7,457)
Contributions by and distributions to equity holders:						
Second interim dividend paid in respect of the previous year	-	-	-	-	(1,553)	(1,553)
Interim dividend declared and paid in respect of the current year	-	-	-	-	(1,590)	(1,590)
Total transaction with equity holders	(7,457)	-	-	-	(3,143)	(10,600)
At December 31, 2014	-	72	28	(695)	5,292	4,697

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2015					
	Share premium	Hedging reserve	Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2015	-	72	28	(695)	5,292	4,697
Comprehensive income/(loss)						
Profit for the year	-	-	-	-	2,605	2,605
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(263)	-	-	-	(263)
- transfer from equity to consolidated income statement	-	(77)	-	-	-	(77)
Total other comprehensive loss	-	(340)	-	-	-	(340)
Total comprehensive income/(loss) for the year	-	(340)	-	-	2,605	2,265
Transaction with equity holders						
Contributions by and distributions to equity holders:						
Final dividend paid in respect of the previous year	-	-	-	-	(1,764)	(1,764)
Interim dividend declared and paid in respect of the current year	-	-	-	-	(1,953)	(1,953)
Total transaction with equity holders	-	-	-	-	(3,717)	(3,717)
At December 31, 2015	-	(268)	28	(695)	4,180	3,245

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

In HK$ million	2014	**2015**
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	13,308	**14,419**
Interests in leasehold land	278	**265**
Goodwill	32,592	**32,592**
Intangible assets	4,924	**4,544**
Interest in a joint venture	462	**464**
Financial assets at fair value through profit or loss	5	**21**
Other non-current assets	26	**26**
	51,595	**52,331**
Current assets		
Prepayments, deposits and other current assets	3,289	**3,590**
Inventories	418	**363**
Trade receivables, net	1,976	**1,437**
Amounts due from a related company	41	**38**
Amounts due from fellow subsidiaries	11,201	**9,834**
Derivative financial instruments	49	**-**
Financial assets at fair value through profit or loss	21	**30**
Cash and cash equivalents	1,819	**2,601**
	18,814	**17,893**
Current liabilities		
Short-term borrowings	3,877	**3,879**
Trade payables	1,091	**1,145**
Accruals and other payables	2,800	**2,983**
Carrier licence fee liabilities	433	**452**
Amounts due to fellow subsidiaries and an intermediate holding company	11,292	**11,799**
Advances from customers	819	**816**
Current income tax liabilities	44	**289**
	20,356	**21,363**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AS AT DECEMBER 31, 2015

In HK$ million	2014	**2015**
Non-current liabilities		
Long-term borrowings	32,549	**32,436**
Derivative financial instruments	100	**443**
Deferred income tax liabilities	1,724	**1,904**
Deferred income	32	**29**
Carrier licence fee liabilities	954	**627**
Other long-term liabilities	52	**232**
	35,411	**35,671**
Net assets	14,642	**13,190**
CAPITAL AND RESERVES		
Share capital	9,945	**9,945**
Reserves	4,697	**3,245**
Total equity	14,642	**13,190**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

In HK$ million	2014	**2015**
NET CASH GENERATED FROM OPERATING ACTIVITIES	5,387	**9,100**
INVESTING ACTIVITIES		
Proceeds from disposals of property, plant and equipment	5	**5**
Purchases of property, plant and equipment	(2,097)	**(2,480)**
Purchases of intangible assets	(1,383)	**(1,693)**
Net outflow of cash and cash equivalents in respect of acquisition of business	(3,148)	**-**
Loans to a fellow subsidiary, net	(6,885)	**-**
Loan to a joint venture	(68)	**(127)**
NET CASH USED IN INVESTING ACTIVITIES	(13,576)	**(4,295)**
FINANCING ACTIVITIES		
New borrowings raised	17,427	**18,045**
Interest paid	(833)	**(953)**
Repayments of borrowings	(5,366)	**(18,173)**
Movement in balance due to fellow subsidiaries	878	**776**
Dividends paid	(3,143)	**(3,717)**
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	8,963	**(4,022)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	774	**783**
Exchange differences	1	**(1)**
CASH AND CASH EQUIVALENTS		
Beginning of year	1,044	**1,819**
End of year	1,819	**2,601**

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