PCCW Limited
電 訊 盈 科 有 限 公 司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

The directors ("Directors") of PCCW Limited ("PCCW" or the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2018. This condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's Audit Committee and, in accordance with the Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Hong Kong Institute of Certified Public Accountants, by the Company's independent auditor, PricewaterhouseCoopers.

- Core revenue increased by 10% to HK$18,809 million
- Consolidated revenue increased by 10% to HK$18,974 million

- Core EBITDA was steady at HK$5,553 million
- Consolidated EBITDA was steady at HK$5,473 million

- Core profit attributable to equity holders of the Company from continuing operations increased by 70% to HK$368 million
- Consolidated profit attributable to equity holders of the Company from continuing operations increased by 131% to HK$185 million

- Basic earnings per share amounted to 2.40 HK cents

- Interim dividend of 8.91 HK cents per ordinary share

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

Continuing operations exclude the results and gain on disposal of the wireless broadband and related business component in the United Kingdom.

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a set of satisfactory financial results for the six months ended June 30, 2018. The results for the six months ended June 30, 2018 reflect the adoption of several new accounting standards and, for comparative purposes, the results for the six months ended June 30, 2017 and December 31, 2017 have been restated as if these new accounting standards had been in place during these periods.

During the period, core revenue increased by 10% to HK$18,809 million. Revenue at HKT Limited ("HKT") increased by 12% to HK$17,022 million as a result of steady growth in revenue from Telecommunications Services ("TSS") and Mobile Services and strong demand for mobile handsets. Revenue from the Media business grew by 7% underpinned by robust growth in the over-the-top ("OTT") services and the success of the 2018 FIFA World Cup™ broadcast on both the pay TV and free TV services. The Solutions business experienced modest growth as a result of fluctuations in project-related revenue, especially in the China market.

EBITDA for HKT grew by 2% to HK$5,639 million reflecting the steady revenue growth and sustained operating cost efficiencies. The Media business continued to make investments in the free TV and OTT services while the Solutions business initiated up-front investments to win and execute contracts secured in a number of newly expanded markets. As a result, core EBITDA was steady at HK$5,553 million.

The projects at PCPD have been progressing well and expected to contribute to the Group as scheduled.

Consolidated revenue for the six months ended June 30, 2018 increased by 10% to HK$18,974 million and consolidated EBITDA was steady at HK$5,473 million.

Core profit attributable to equity holders of the Company from continuing operations increased by 70% to HK$368 million. Consolidated profit attributable to equity holders of the Company from continuing operations increased by 131% to HK$185 million. Basic earnings per share from continuing operations was 2.40 HK cents.

The board of Directors (the "Board") has resolved to declare an interim dividend of 8.91 HK cents per ordinary share for the six months ended June 30, 2018.

OUTLOOK

The results for the first six months of 2018 affirm the leadership positions in Hong Kong of the various business segments of the Group and the growth strategies that they have each embarked on.

The Group's media businesses have charted clear strategies for growth – Now TV and Now E meet the needs of various viewer segments in Hong Kong with exclusive, premium Asian and international content including world-class sports; Viu OTT will continue to increase penetration in the overseas markets with localized programming and creative Viu Original productions; and ViuTV will ride on the World Cup momentum to engage the Hong Kong TV audience with more local dramas and variety shows.

PCCW Solutions will benefit from the continuing trend of digital transformation as it offers a comprehensive suite of solutions and world-class data center facilities. PCCW Solutions will seek to replicate its success in Hong Kong in Southeast Asian markets with an aim to become a leading transformation enabler in the pan-Asian region.

HKT has again demonstrated its resilience amid intense competition in the telecommunications markets. It will continue to innovate to meet customers' connectivity demand and aspirations for smart lifestyles.

The Group will continue to explore and take advantage of synergies among our businesses to enhance the digital transformation of consumers and enterprises. We will also seek new risk-mitigated, sustainable growth opportunities with a view to maximizing value for shareholders in the medium to long term.

FINANCIAL REVIEW BY SEGMENT

For the six months ended HK$ million Continuing operations	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
Revenue				
HKT	15,211	17,856	**17,022**	12%
HKT (excluding Mobile Product Sales)	13,519	15,398	**13,648**	1%
Mobile Product Sales	1,692	2,458	**3,374**	99%
Now TV Business	1,334	1,386	**1,392**	4%
Free TV Business	94	91	**99**	5%
OTT Business	337	381	**394**	17%
Solutions Business	1,685	2,317	**1,709**	1%
Other Businesses	-	-	**-**	-
Eliminations	(1,558)	(2,466)	**(1,807)**	(16)%
Core revenue	17,103	19,565	**18,809**	10%
PCPD	107	57	**165**	54%
Consolidated revenue	17,210	19,622	**18,974**	10%
Cost of sales	(8,402)	(9,942)	**(10,152)**	(21)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(3,304)	(2,748)	**(3,349)**	(1)%
EBITDA[1]				
HKT	5,547	6,738	**5,639**	2%
Now TV Business	167	249	**198**	19%
Free TV Business	(104)	(116)	**(131)**	(26)%
OTT Business	(115)	(118)	**(144)**	(25)%
Solutions Business	378	701	**271**	(28)%
Other Businesses	(251)	(342)	**(193)**	23%
Eliminations	(21)	(41)	**(87)**	(314)%
Core EBITDA[1]	5,601	7,071	**5,553**	(1)%
PCPD	(97)	(139)	**(80)**	18%
Consolidated EBITDA[1]	5,504	6,932	**5,473**	(1)%
Core EBITDA[1] margin	*33%*	*36%*	***30%***	
Consolidated EBITDA[1] margin	*32%*	*35%*	***29%***	
Depreciation	(1,763)	(1,755)	**(1,784)**	(1)%
Amortization	(1,676)	(1,610)	**(1,680)**	0%
Gain/(Loss) on disposal of property, plant and equipment, net	1	(4)	**1**	0%
Other gains/(losses), net	25	(60)	**334**	>500%
Interest income	58	75	**71**	22%
Finance costs	(847)	(789)	**(893)**	(5)%
Share of results of associates and joint ventures	(35)	89	**(26)**	26%
Profit before income tax	1,267	2,878	**1,496**	18%

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

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

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

HKT

For the six months ended HK$ million	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
HKT Revenue	15,211	17,856	**17,022**	12%
HKT (excluding Mobile Product Sales)	13,519	15,398	**13,648**	1%
Mobile Product Sales	1,692	2,458	**3,374**	99%
HKT EBITDA[1]	5,547	6,738	**5,639**	2%
HKT EBITDA[1] margin	*36%*	*38%*	***33%***	
HKT Adjusted Funds Flow	2,129	2,783	**2,205**	4%

HKT delivered a solid set of financial results for the six months ended June 30, 2018, reflecting the strength and resilience across its lines of core business as well as continued operating efficiency improvements.

Total revenue for the six months ended June 30, 2018 increased by 12% to HK$17,022 million, driven in particular by a strong demand for mobile handsets during the period. Excluding Mobile Product Sales, underlying revenue for the period increased by 1% to HK$13,648 million, as compared to HK$13,519 million for the corresponding period last year, supported by steady growth in revenue from both TSS and Mobile Services.

Total EBITDA for the period was HK$5,639 million, an increase of 2% over the same period in 2017. Profit before income tax was steady at HK$2,306 million while profit attributable to holders of share stapled units was HK$1,868 million. Basic earnings per share stapled unit was 24.67 HK cents.

Adjusted funds flow for the six months ended June 30, 2018 expanded by 4% to HK$2,205 million, compared to the same period in 2017. Adjusted funds flow per share stapled unit correspondingly grew by 4% to 29.12 HK cents compared to the same period in 2017.

HKT announced an interim distribution of 29.12 HK cents per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2018 interim results announcement released on August 6, 2018.

Now TV Business

For the six months ended **HK$ million**	**Jun 30, 2017 (Restated)**	**Dec 31, 2017 (Restated)**	**Jun 30, 2018**	Better/ (Worse) y-o-y
Now TV Business Revenue	1,334	1,386	**1,392**	4%
Now TV Business EBITDA[1]	167	249	**198**	19%
Now TV *Business EBITDA[1] margin*	*13%*	*18%*	***14%***	

Revenue for the Now TV business for the six months ended June 30, 2018 increased by 4% to HK$1,392 million compared to HK$1,334 million for the prior period. The return to growth for the Now TV business reflected the success of the exclusive broadcast of the 2018 FIFA World Cup™ to help acquire new customers and up-sell existing customers as well as the launch of the Now E service, a brand new one-stop entertainment platform to serve digitally savvy viewers. As a result, Now TV enlarged its installed base to 1,343,000 as of June 2018 and achieved an exit average revenue per user (“ARPU”) of HK$191. The remaining impact from the World Cup in the second half of 2018 and the exclusive broadcast of the English Premier League for the 2018/19 season on both the Now TV and Now E platforms are expected to continue to contribute to revenue.

As a result of the revenue growth, EBITDA for the six months ended June 30, 2018 expanded by 19% to HK$198 million, as compared to HK$167 million a year ago. The EBITDA margin improved from 13% in the first half of 2017 to 14% in the first half of 2018 even after absorbing the 2018 FIFA World Cup™ related costs, reflecting the effort to rationalize content costs that began in the second half of 2017 and improved operating efficiencies.

Free TV Business

For the six months ended HK$ million	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
Free TV Business Revenue	94	91	**99**	5%
Free TV Business EBITDA[1]	(104)	(116)	**(131)**	(26)%

Revenue for ViuTV grew by 5% to HK$99 million for the six months ended June 30, 2018 from HK$94 million a year ago. This growth reflected a 40% increase in advertising revenue during the period which was driven by the broadcast of the 2018 FIFA World Cup™ and its related programs. The broadcast helped to broaden our viewership base, evidenced by the television ratings recorded during the tournament including an average rating of 24.4 for the final match. The strong growth in advertising revenue was moderated by the absence of drama distribution revenue which was apparent in the first half of 2017. However, with the continued investment in drama production we expect this revenue to return in future periods.

Due to the 2018 FIFA World Cup™ related costs and continued investments in content acquisition and production, the EBITDA loss widened to HK$131 million for the six months ended June 30, 2018, compared to an EBITDA loss of HK$104 million a year ago. These investments are expected to yield meaningful revenue in the coming periods.

Following the success of the 2018 FIFA World Cup™ broadcast in boosting the ViuTV viewership and brand awareness, ViuTV will continue to roll out more attractive variety shows, dramas and other programs to sustain the expanded viewership base and enhanced brand awareness.

OTT Business

For the six months ended HK$ million	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
OTT Business Revenue	337	381	**394**	17%
OTT Business EBITDA[1]	(115)	(118)	**(144)**	(25)%

Revenue from the OTT business grew by 17% to HK$394 million from HK$337 million a year ago. In particular, revenue from the video OTT segment increased by 30% spurred by the continuing build-out and take-up of the premium Viu service in recently entered markets such as Thailand and large scale markets such as India and Indonesia. Our video OTT services are now available in 27 markets across Asia, the Middle East and Africa and the premium Viu service is available in 16 markets.

Subscription revenue generated by the OTT business grew by 8% during the period from HK$263 million for the six months ended June 30, 2017 to HK$285 million for the six months ended June 30, 2018. Notably, advertising revenue expanded by 47% from HK$74 million to HK$109 million year on year demonstrating the broad appeal of the sizeable and highly engaged Viu user base to advertisers across the region. The Viu service recorded 20.3 million monthly active users as of June 30, 2018, representing a solid growth rate of 62% year-on-year. These users consumed 14.8 billion video minutes in 1.2 billion views during the first six months of 2018.

To further drive growth in the OTT business, further investments have been made in content, personnel and marketing in the first half of 2018. Accordingly, the OTT business recorded an EBITDA loss of HK$144 million for the six months ended June 30, 2018 compared to the EBITDA loss of HK$115 million a year ago.

The OTT business plans to deepen its engagement with users by broadening its content offering, including its Viu Original productions, and drive user awareness through partnerships with popular social media and e-commerce platforms as well as telecommunications and device partners.

Solutions Business

For the six months ended HK$ million	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
Solutions Business Revenue	1,685	2,317	**1,709**	1%
Solutions Business EBITDA[1]	378	701	**271**	(28)%
Solutions Business EBITDA[1] margin	*22%*	*30%*	***16%***	

The Solutions business recorded modest growth in revenue of 1% to HK$1,709 million for the six months ended June 30, 2018. Although there was a healthy 20% increase in revenue of a recurring nature, this was offset by fluctuations in project-related revenue especially in the China market.

Leveraging on its industry expertise, the Solutions business secured revenue from customers in the telecom sector which represented 36% of total revenue. As more enterprises increased their spending on digital transformation, revenue from application development and maintenance services increased to 27% of total revenue.

In line with its strategy to expand into new geographic markets including Singapore and the Philippines, contribution from international markets has been expanding. Secured orders from international markets grew by 26% for the six months ended June 30, 2018 against the comparative period in 2017.

EBITDA for the six months ended June 30, 2018 decreased by 28% to HK$271 million and the margin was 16%. The decline in EBITDA was in line with project-related revenue and also reflected upfront investments to secure and execute projects in the new markets. Steps have been put in place to restructure the size of the delivery resources to align with current business levels as well as to accelerate the sales conversion process.

The Solutions business secured orders with a value of HK$7,336 million as at June 30, 2018, an increase of 11% from a year ago. Significant wins included a contract to design business critical IT systems for the Correctional Services Department and a contract with a telecom company in Singapore to design, plan and build an end-to-end IT system integrated with a modern, software defined communications network.

To facilitate future growth, the Solutions business is adding 44MVA of data center capacity in Hong Kong and is evaluating opportunities to add data center capacity in other locations to capture demand from customers. The Solutions business has successfully secured contracts in new geographic markets and will continue to leverage its expertise in the latest technologies such as analytics and artificial intelligence to further secure projects in and beyond Hong Kong.

PCPD

For the six months ended June 30, 2018, PCPD recorded higher total revenue of HK$165 million compared with total revenue of HK$107 million and narrowed EBITDA cost to HK$80 million from EBITDA cost of HK$97 million a year earlier as Pacific Century Place, Jakarta ("PCP, Jakarta") started generating rental revenue.

PCP, Jakarta commenced its full operation at the beginning of the year. To date, 78% of the office space at PCP, Jakarta has been committed or reserved.

Construction of the Park Hyatt Niseko Hanazono and Branded Residences is progressing as scheduled. PCPD has sold or reserved 90 units and is preparing to launch the remaining units of Park Hyatt Niseko Hanazono Residences in the coming year.

In Thailand, PCPD has entered into the design stage of phase 1 of the project in Phang Nga. The project once completed will comprise hotels, condominiums and villas.

In March 2018, PCPD completed the acquisition of the site at 3-6 Glenealy, Central, Hong Kong. The site is intended to be redeveloped into a luxury residential property.

PCPD will continue to seek potential projects around the world, including Hong Kong, Southeast Asia and London.

For more information about the performance of PCPD, please refer to its 2018 interim results announcement released on August 3, 2018.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the six months ended June 30, 2018 improved to HK$193 million (June 30, 2017: HK$251 million) due to further operating efficiencies.

Eliminations

Eliminations for the six months ended June 30, 2018 were HK$1,807 million (June 30, 2017: HK$1,558 million). This continues to reflect the growing collaboration amongst various business segments of the Group to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers.

Costs

Cost of Sales

For the six months ended HK$ million	Jun 30, 2017 (Restated)	Dec 31, 2017 (Restated)	Jun 30, 2018	Better/ (Worse) y-o-y
HKT	7,124	8,848	**8,858**	(24)%
The Group (excluding PCPD)	8,377	9,930	**10,125**	(21)%
Consolidated	8,402	9,942	**10,152**	(21)%

HKT's cost of sales for the six months ended June 30, 2018 increased by 24% to HK$8,858 million primarily reflecting the costs associated with the increase in Mobile Product Sales. The gross margin was 48% in the first half of 2018, as compared to 53% a year ago due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the gross margin for HKT was steady at 60% for the first half of 2018.

Cost of sales for the core businesses increased by 21% primarily driven by increases at HKT. Gross margin for the core businesses was 46% in the first half of 2018, as compared to 51% a year ago.

The Group's consolidated total cost of sales for the six months ended June 30, 2018 increased by 21% to HK$10,152 million.

General and Administrative Expenses

For the six months ended June 30, 2018, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") increased by 1% year-on-year to HK$3,349 million. There were sustained improvements in operating efficiencies at HKT, particularly in the Mobile business. However, further investments were made to maintain the growth momentum of the OTT service in the Media business as well as upfront investments to expand the Solutions business into new geographic markets. Overall, operating costs to revenue ratio improved to 18% from 19% a year ago.

Both depreciation and amortization expenses remained steady and totaled HK$3,464 million for the six months ended June 30, 2018 (June 30, 2017: HK$3,439 million). Content related amortization for the period was HK$304 million, as compared to HK$275 million a year ago.

As a result, general and administrative expenses increased slightly by 1% year-on-year to HK$6,812 million for the six months ended June 30, 2018.

EBITDA[1]

Core EBITDA for the six months ended June 30, 2018 was steady at HK$5,553 million while the margin decreased to 30% due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the core EBITDA margin was steady at 36%. Consolidated EBITDA was steady at HK$5,473 million for the period with the margin at 29%.

Other (Losses)/Gains, Net

Net other gains of HK$334 million, which primarily represented gains on strategic investments in the Media business, were recorded for the six months ended June 30, 2018, as compared to HK$25 million a year ago.

Interest Income and Finance Costs

Interest income for the six months ended June 30, 2018 increased to HK$71 million as a result of the increase in the average cash balance and the general level of interest rates compared to a year ago. Finance costs increased by 5% year-on-year to HK$893 million as a result of generally higher HIBOR and an increase in borrowings at PCPD to support ongoing and future property developments. As a result, net finance costs increased by 4% year-on-year to HK$822 million for the six months ended June 30, 2018. The average cost of debt was 3.2% during the period, as compared to 3.0% a year ago.

Income Tax

Income tax expenses for the six months ended June 30, 2018 was HK$437 million, as compared to HK$211 million a year ago. The increase was primarily attributable to the lower tax expense at HKT a year earlier due to the recognition of a deferred income tax asset resulting from a loss-making company turning profitable.

Non-controlling Interests

Non-controlling interests were HK$874 million for the six months ended June 30, 2018 (June 30, 2017: HK$976 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD. The reduction in non-controlling interests was largely due to the decrease in the net profit after tax of HKT during the period.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company from continuing operations for the six months ended June 30, 2018 was HK$185 million (June 30, 2017: HK$80 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt[2] was HK$48,761 million as at June 30, 2018 (December 31, 2017: HK$47,580 million). Cash and short-term deposits totaled HK$9,062 million as at June 30, 2018 (December 31, 2017: HK$13,267 million). At PCCW (excluding HKT and PCPD), there was a net cash position of HK$615 million as at June 30, 2018.

As at June 30, 2018, the Group had a total of HK$40,465 million in committed bank loan facilities available for liquidity management and investment, of which HK$16,924 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,767 million, of which HK$5,734 million remained undrawn.

The Group's gross debt[2] to total assets was 52% as at June 30, 2018 (December 31, 2017: 51%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at June 30, 2018, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[3]

Group capital expenditure for the six months ended June 30, 2018 was HK$1,713 million (June 30, 2017: HK$1,518 million), of which HKT accounted for approximately 79% (June 30, 2017: 88%). Capital expenditure at HKT was stable as capital expenditure for the Mobile business was reduced reflecting the efficiencies achieved following the CSL network integration, while capital expenditures for the TSS business grew to meet the continued demand for HKT's fiber broadband connectivity and to get ready for 5G deployment, Internet of Things ("IoT") related services, customized solutions for enterprises and smart city development in the public sector. There was an increase in capital expenditure for the Media business largely for office relocation and the upgrading of its production studio facilities which is expected to be completed by the end of 2018. Capital expenditure for the Solutions business also increased to support the expansion of data center capacity. There was also an increase in capital expenditure at PCPD to support the construction of the Park Hyatt Hotel and Branded Residences project.

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

HEDGING

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at June 30, 2018, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

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

CHARGE ON ASSETS

As at June 30, 2018, certain assets of the Group with an aggregate carrying value of HK$3,318 million (December 31, 2017: HK$1,128 million) were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

HK$ million	As at Dec 31, 2017 (Audited)	**As at Jun 30, 2018 (Unaudited)**
Performance guarantees	572	**593**
Others	130	**130**
	702	**723**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at June 30, 2018, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the Directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

HUMAN RESOURCES

The Group had over 23,700 employees as at June 30, 2018 (June 30, 2017: 23,800) located in over 48 countries and cities. About 64% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 8.91 HK cents (June 30, 2017: 8.57 HK cents) per ordinary share for the six months ended June 30, 2018 to shareholders whose names appear on the register of members of the Company on Friday, August 31, 2018, payable on or around Wednesday, October 10, 2018.

CLOSURE OF REGISTER OF MEMBERS

The record date for the interim dividend will be Friday, August 31, 2018. The Company's register of members will be closed from Thursday, August 30, 2018 to Friday, August 31, 2018 (both days inclusive) in order to determine entitlements to the interim dividend. During such period, no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, August 29, 2018. Dividend warrants will be despatched to shareholders on or around Wednesday, October 10, 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2018. Such condensed consolidated interim financial information has not been audited but has been reviewed by the Company's independent auditor.

CORPORATE GOVERNANCE CODE

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

The Company has applied the principles, and complied with all applicable code provisions of the Corporate Governance Code in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended June 30, 2018.

RETIREMENT OF HKT'S GROUP MANAGING DIRECTOR, APPOINTMENT OF HKT'S SUCCESSOR GROUP MANAGING DIRECTOR AND CHANGE OF HKT'S GROUP CHIEF FINANCIAL OFFICER

As announced by HKT on August 7, 2018, Mr. Alexander Anthony Arena ("Mr. Arena") will retire as Group Managing Director and Executive Director of HKT and its trustee-manager with effect from the end of August 31, 2018, having reached normal retirement age.

The Directors of PCCW would like to express their thanks to Mr. Arena, both for his valuable contributions to HKT since its separate listing in November 2011, having led HKT through a period of commendable financial performance and sustained growth, and for his previous service with the Group from August 1999.

Upon the retirement of Mr. Arena, Ms. Hui Hon Hing, Susanna ("Ms. Hui"), currently Group Chief Financial Officer and Executive Director of HKT and its trustee-manager, will be appointed as HKT's Group Managing Director with effect from September 1, 2018. In connection with her appointment as HKT's Group Managing Director, Ms. Hui will step down from her current role as HKT's Group Chief Financial Officer. Mr. Wong Hong Kit ("Mr. Evan Wong") will be appointed as HKT's Chief Financial Officer, also with effect from September 1, 2018. Mr. Evan Wong currently serves as HKT's Director of Group Finance.

Further details of these senior management changes at HKT are contained in HKT's announcement, which is available at the following link: www.hkt.com/ir.

Ms. Hui continues to serve as Group Chief Financial Officer and Executive Director of PCCW.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2018 interim report will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board of
PCCW Limited
Bernadette M. Lomas
Group General Counsel and Company Secretary

Hong Kong, August 7, 2018

CONSOLIDATED INCOME STATEMENT
For the six months ended June 30, 2018

In HK$ million (except for earnings per share)	Note(s)	2017 (Restated#)	**2018 (Unaudited)**
Continuing operations			
Revenue	3	17,210	**18,974**
Cost of sales		(8,402)	**(10,152)**
General and administrative expenses		(6,742)	**(6,812)**
Other gains, net	4	25	**334**
Interest income		58	**71**
Finance costs		(847)	**(893)**
Share of results of associates		(21)	**(11)**
Share of results of joint ventures		(14)	**(15)**
Profit before income tax	3, 5	1,267	**1,496**
Income tax	6	(211)	**(437)**
Profit for the period from continuing operations		1,056	**1,059**
Discontinued operations			
Profit for the period from discontinued operations	8	1,074	–
Profit for the period		2,130	**1,059**
Profit attributable to:			
Equity holders of the Company		1,154	**185**
Non-controlling interests		976	**874**
		2,130	**1,059**
Profit attributable to equity holders of the Company arising from:			
Continuing operations		80	**185**
Discontinued operations		1,074	–
		1,154	**185**
Earnings per share	9		
Basic earnings per share arising from:			
Continuing operations		1.04 cents	**2.40 cents**
Discontinued operations		13.94 cents	–
		14.98 cents	**2.40 cents**
Diluted earnings per share arising from:			
Continuing operations		1.04 cents	**2.40 cents**
Discontinued operations		13.93 cents	–
		14.97 cents	**2.40 cents**

See note 2 for details regarding the restatement as a result of changes in accounting policies.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended June 30, 2018

In HK$ million	2017 (Restated[#])	**2018 (Unaudited)**
Profit for the period	2,130	**1,059**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement:		
Changes in the fair value of equity investments at fair value through other comprehensive income	–	**(57)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	238	**(146)**
- reclassification of currency translation reserve on disposal of subsidiaries	172	**–**
Available-for-sale financial assets:		
- changes in fair value	(10)	**–**
Cash flow hedges:		
- effective portion of changes in fair value	(624)	**75**
- transfer from equity to consolidated income statement	(217)	**(41)**
Costs of hedging	–	**5**
Other comprehensive loss for the period	(441)	**(164)**
Total comprehensive income for the period	1,689	**895**
Attributable to:		
Equity holders of the Company	1,005	**11**
Non-controlling interests	684	**884**
Total comprehensive income for the period	1,689	**895**
Total comprehensive income/(loss) attributable to equity holders of the Company arising from:		
Continuing operations	(269)	**11**
Discontinued operations	1,274	**–**
	1,005	**11**

[#] See note 2 for details regarding the restatement as a result of changes in accounting policies.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
As at June 30, 2018

				(Additional Information)	
		The Group		The Company	
In HK$ million	Note*	As at December 31, 2017 (Restated#)	**As at June 30, 2018 (Unaudited)**	As at December 31, 2017 (Audited)	**As at June 30, 2018 (Unaudited)**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		21,681	**22,550**	–	–
Right-of-use assets		3,237	**4,110**	–	–
Investment properties		3,744	**3,625**	–	–
Interests in leasehold land		404	**396**	–	–
Properties held for/under development	10	1,188	**3,404**	–	–
Goodwill		18,128	**18,128**	–	–
Intangible assets		9,603	**9,842**	–	–
Fulfillment costs		1,378	**1,335**	–	–
Customer acquisition costs		797	**778**	–	–
Contract assets		353	**366**	–	–
Interests in subsidiaries		–	–	17,792	**17,792**
Interests in associates		719	**710**	–	–
Interests in joint ventures		592	**561**	–	–
Available-for-sale financial assets		2,021	–	–	–
Financial assets at fair value through other comprehensive income		–	**1,126**	–	–
Financial assets at fair value through profit or loss		–	**756**	–	–
Derivative financial instruments		225	**283**	2	**6**
Deferred income tax assets		1,215	**1,225**	–	–
Other non-current assets		1,013	**1,094**	–	–
		66,298	**70,289**	17,794	**17,798**
Current assets					
Amounts due from subsidiaries		–	–	12,746	**14,201**
Sales proceeds held in stakeholders' accounts		508	**507**	–	–
Inventories		911	**1,193**	–	–
Prepayments, deposits and other current assets		4,452	**3,887**	16	**14**
Contract assets		3,090	**3,049**	–	–
Trade receivables, net	11	3,664	**4,602**	–	–
Amounts due from related companies		86	**124**	–	–
Derivative financial instruments		1	**4**	1	**4**
Other financial assets		79	–	–	–
Financial assets at fair value through profit or loss		–	**350**	–	–
Tax recoverable		19	**18**	–	–
Restricted cash		149	**172**	–	–
Short-term deposits		1,629	**636**	160	–
Cash and cash equivalents		11,638	**8,426**	4,364	**2,887**
		26,226	**22,968**	17,287	**17,106**

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)
As at June 30, 2018

		The Group		(Additional Information) The Company	
In HK$ million	Note*	As at December 31, 2017 (Restated#)	**As at June 30, 2018 (Unaudited)**	As at December 31, 2017 (Audited)	**As at June 30, 2018 (Unaudited)**
Current liabilities					
Short-term borrowings	12	(622)	**(8,038)**	–	**–**
Trade payables	13	(2,088)	**(1,875)**	–	**–**
Accruals and other payables		(7,515)	**(7,239)**	(10)	**(9)**
Amount payable to the Government under the Cyberport Project Agreement		(321)	**(321)**	–	**–**
Derivative financial instruments		(15)	**–**	–	**–**
Carrier licence fee liabilities		(173)	**(218)**	–	**–**
Amounts due to related companies		(1)	**(2)**	–	**–**
Advances from customers		(253)	**(272)**	–	**–**
Contract liabilities		(1,538)	**(2,173)**	–	**–**
Lease liabilities		(1,446)	**(1,493)**	–	**–**
Current income tax liabilities		(1,155)	**(1,270)**	–	**–**
		(15,127)	**(22,901)**	(10)	**(9)**
Non-current liabilities					
Long-term borrowings		(46,613)	**(40,494)**	–	**–**
Amounts due to subsidiaries		–	**–**	(3,100)	**(3,153)**
Derivative financial instruments		(282)	**(223)**	(104)	**(111)**
Deferred income tax liabilities		(3,208)	**(3,347)**	–	**–**
Defined benefit retirement schemes liability		(105)	**(106)**	–	**–**
Carrier licence fee liabilities		(455)	**(409)**	–	**–**
Contract liabilities		(1,026)	**(1,092)**	–	**–**
Lease liabilities		(2,005)	**(2,845)**	–	**–**
Other long-term liabilities		(1,811)	**(1,893)**	–	**–**
		(55,505)	**(50,409)**	(3,204)	**(3,264)**
Net assets		21,892	**19,947**	31,867	**31,631**

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at June 30, 2018

In HK$ million	Note*	The Group As at December 31, 2017 (Restated#)	The Group **As at June 30, 2018 (Unaudited)**	(Additional Information) The Company As at December 31, 2017 (Audited)	(Additional Information) The Company **As at June 30, 2018 (Unaudited)**
CAPITAL AND RESERVES					
Share capital	14	12,954	**12,954**	12,954	**12,954**
Reserves		6,236	**4,613**	18,913	**18,677**
Equity attributable to equity holders of the Company		19,190	**17,567**	31,867	**31,631**
Non-controlling interests		2,702	**2,380**	–	**–**
Total equity		21,892	**19,947**	31,867	**31,631**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at June 30, 2018 and December 31, 2017 is presented only as additional information to this unaudited condensed consolidated interim financial information.

See note 2 for details regarding the restatement as a result of changes in accounting policies.

NOTES

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard ("HKAS") 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

This unaudited condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This unaudited condensed consolidated interim financial information was approved for issue on August 7, 2018.

The unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and, in accordance with Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the HKICPA, by the Company's independent auditor.

The financial information relating to the year ended December 31, 2017 that is included in this unaudited condensed consolidated interim financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the financial statements for the year ended December 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

- The Company's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

1. BASIS OF PREPARATION (CONTINUED)

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2017, except for changes in estimates that are required by the changes in accounting policies as described in note 2.

The accounting policies, basis of presentation and methods of computation used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of the following new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations ("Ints") (collectively "new HKFRSs") and the classification of discontinued operations.

In 2017, the Group disposed of its entire indirect equity interest in UK Broadband Limited, which engaged in the provision of wireless broadband services in the United Kingdom. In 2018, the Group has ceased the remaining operations of its wireless broadband and related business component in the United Kingdom. The unaudited condensed consolidated interim financial information and the comparative figures have been prepared to reflect the results of the discontinued operations separately.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2018 and the impacts of the adoption of the new HKFRSs are disclosed in note 2.

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

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

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

The Group has early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 and the impact of the adoption is disclosed in note 2. The Group has not early adopted any other new HKFRSs that are not yet effective for the current accounting period.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs

This note explains the impact of the adoption of HKFRS 9 (2014) *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, and the early adoption of HKFRS 16 *Leases* on the Group's financial statements. As a result of the changes in the Group's accounting policies and the reclassification of discontinued operations (note 8), prior period financial statements had to be restated as follows:

In HK$ million (except for earnings per share)

Consolidated income statement for the six months ended June 30, 2017 (extract)	**As originally presented**	**Re-classification of discontinued operations (Note 8)**	**HKFRS 15 Note 2(a)**	**HKFRS 16 Note 2(b)**	**Restated**
Revenue	17,683	(30)	(443)	–	17,210
Cost of sales	(7,961)	15	(713)	257	(8,402)
General and administrative expenses	(7,498)	106	864	(214)	(6,742)
Other gains, net	1,190	(1,165)	–	–	25
Finance costs	(790)	–	–	(57)	(847)
Profit before income tax from continuing operations*	2,647	(1,074)	(292)	(14)	1,267
Income tax	(263)	–	48	4	(211)
Profit for the period from continuing operations	2,384	(1,074)	(244)	(10)	1,056
Profit for the period from discontinued operations	–	1,074	–	–	1,074
Profit for the period	2,384	–	(244)	(10)	2,130
Earnings per share					
Basic earnings per share arising from:					
Continuing operations (cents)	16.79	(13.94)	(1.70)	(0.11)	1.04
Discounted operations (cents)	–	13.94	–	–	13.94
	16.79	–	(1.70)	(0.11)	14.98
Diluted earnings per share arising from:					
Continuing operations (cents)	16.77	(13.93)	(1.70)	(0.10)	1.04
Discounted operations (cents)	–	13.93	–	–	13.93
	16.77	–	(1.70)	(0.10)	14.97

In HK$ million

Consolidated statement of comprehensive income for the six months ended June 30, 2017 (extract)	**As originally presented**	**HKFRS 15 Note 2(a)**	**HKFRS 16 Note 2(b)**	**Restated**
Profit for the period	2,384	(244)	(10)	2,130
Total comprehensive income for the period*	1,943	(244)	(10)	1,689
Attributable to:				
Equity holders of the Company	1,144	(131)	(8)	1,005
Non-controlling interests	799	(113)	(2)	684
Total comprehensive income for the period	1,943	(244)	(10)	1,689

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

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

In HK$ million

Consolidated statement of financial position (extract)	**As at December 31, 2017 As originally presented**	**HKFRS 15 Note 2(a)**	**HKFRS 16 Note 2(b)**	**As at December 31, 2017 Restated**	**HKFRS 9 (2014) Note 2(c)**	**As at January 1, 2018 Restated**
ASSETS AND LIABILITIES						
Non-current assets						
Right-of-use assets	–	–	3,237	3,237	–	3,237
Intangible assets	12,726	(3,123)	–	9,603	–	9,603
Fulfillment costs	–	1,378	–	1,378	–	1,378
Customer acquisition costs	–	797	–	797	–	797
Contract assets	–	353	–	353	–	353
Available-for-sale (“AFS”) financial assets	2,021	–	–	2,021	(2,021)	–
Financial assets at FVOCI[i]	–	–	–	–	1,183	1,183
Financial assets at FVPL[ii]	–	–	–	–	838	838
Deferred income tax assets	1,213	–	2	1,215	–	1,215
Other non-current assets	1,019	–	(6)	1,013	–	1,013
Current assets						
Prepayments, deposits and other current assets	9,556	(5,000)	(104)	4,452	–	4,452
Contract assets	–	3,090	–	3,090	–	3,090
Other financial assets	79	–	–	79	(79)	–
Financial assets at FVPL	–	–	–	–	79	79
Current liabilities						
Accruals and other payables	(7,569)	–	54	(7,515)	–	(7,515)
Advances from customers	(2,588)	2,335	–	(253)	–	(253)
Contract liabilities	–	(1,538)	–	(1,538)	–	(1,538)
Lease liabilities	–	–	(1,446)	(1,446)	–	(1,446)
Current income tax liabilities	(1,438)	271	12	(1,155)	–	(1,155)
Non-current liabilities						
Deferred income tax liabilities	(3,233)	–	25	(3,208)	–	(3,208)
Deferred income	(1,381)	1,381	–	–	–	–
Contract liabilities	–	(1,026)	–	(1,026)	–	(1,026)
Lease liabilities	–	–	(2,005)	(2,005)	–	(2,005)
Net assets*	23,205	(1,082)	(231)	21,892	–	21,892
CAPITAL AND RESERVES						
Reserves	6,987	(555)	(196)	6,236	–	6,236
Equity attributable to equity holders of the Company*	19,941	(555)	(196)	19,190	–	19,190
Non-controlling interests	3,264	(527)	(35)	2,702	–	2,702
Total equity*	23,205	(1,082)	(231)	21,892	–	21,892

i Fair value through other comprehensive income (“FVOCI”)
ii Fair value through profit or loss (“FVPL”)
* The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

(a) HKFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2 above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016, profit attributable to equity holders of the Company for the six months ended June 30, 2017 and the year ended December 31, 2017 of HK$452 million, HK$131 million and HK$190 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and decreased by HK$1,156 million and HK$2,220 million for the six months ended June 30, 2017 and the year ended December 31, 2017 respectively.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

(a) HKFRS 15 *Revenue from Contracts with Customers* (continued)

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

(b) HKFRS 16 *Leases*

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

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

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

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

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by any lease payments made at or before the commencement date, less any lease incentive received, any initial direct costs, and restoration costs, relating to that lease. The right-of-use assets were recognized in the consolidated statement of financial position. Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2 above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016, profit attributable to equity holders of the Company for the six months ended June 30, 2017 and the year ended December 31, 2017 of HK$187 million, HK$8 million and HK$18 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and increased by HK$978 million and HK$1,994 million for the six months ended June 30, 2017 and the year ended December 31, 2017 respectively.

Cash payments for the settlement of lease liabilities for the six months ended June 30, 2017 of HK$953 million were required to be reclassified from operating activities to financing activities according to the HKFRS 16 in the restated consolidated statement of cash flows. The Group's total net cash flow is unaffected.

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs (CONTINUED)

(c) HKFRS 9 (2014) *Financial Instruments*

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

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

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

Accordingly, AFS financial assets are reclassified on January 1, 2018. Certain equity investments, with carrying value of HK$1,183 million and HK$27 million, were reclassified to financial assets at FVOCI and financial assets at FVPL respectively; while certain debt investments, with carrying value of HK$890 million, were reclassified to financial assets at FVPL according to the Group's business model and the contractual cash flow characteristics of the financial instruments. Corresponding accumulated fair value gains of HK$163 million and HK$212 million were transferred from AFS financial assets reserve to financial assets at FVOCI reserve and retained profits respectively on January 1, 2018. Such reclassification has no impact on the measurement of these financial assets.

On adoption of HKFRS 9 (2014), the Group has applied the new hedge accounting model prospectively from January 1, 2018 except upon transition to HKFRS 9 (2014), the Group has elected the option to separate foreign currency basis spread and exclude it from the designated hedging instrument retrospectively, resulting in a reclassification of reserves as of January 1, 2018. The Group recognizes changes in fair value of cross currency swap contracts attributable to the foreign currency basis in costs of hedging reserve within equity. This change has been applied retrospectively for cross currency swap contracts in both cash flow hedging relationships and fair value hedging relationships resulting in a reclassification of a credit balance of HK$44 million and a debit balance of HK$182 million from retained profits and hedging reserve, respectively, to the costs of hedging reserve as at January 1, 2018.

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

3. SEGMENT INFORMATION

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

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

- HKT Limited (“HKT”) is Hong Kong’s premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

- Media Business includes interactive pay-TV services, Internet portal digital media entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world. The Group also operates a domestic free television service in Hong Kong.

- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong and other parts of Greater China and Asia.

- Pacific Century Premium Developments Limited (“PCPD”) covers the Group’s development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

- Other Businesses primarily comprises corporate support functions.

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

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

3. SEGMENT INFORMATION (CONTINUED)

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

For the six months ended June 30, 2017 (Restated)
(In HK$ million)

	Continuing operations								
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Total	Discontinued operations	Consolidated
REVENUE									
Total Revenue	15,211	1,765	1,685	–	107	(1,558)	17,210	30	17,240
RESULTS									
EBITDA	5,547	(52)	378	(251)	(97)	(21)	5,504	(49)	5,455

For the six months ended June 30, 2018 (Unaudited)
(In HK$ million)

	Continuing operations								
	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Total**	**Discontinued operations**	**Consolidated**
REVENUE									
Total Revenue	**17,022**	**1,885**	**1,709**	**–**	**165**	**(1,807)**	**18,974**	**–**	**18,974**
RESULTS									
EBITDA	**5,639**	**(77)**	**271**	**(193)**	**(80)**	**(87)**	**5,473**	**–**	**5,473**

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

In HK$ million	Six months ended June 30, 2017 (Restated)	**Six months ended June 30, 2018 (Unaudited)**
Total segment EBITDA arising from continuing operations	5,504	**5,473**
Gain on disposal of property, plant and equipment, net	1	**1**
Depreciation and amortization	(3,439)	**(3,464)**
Other gains, net	25	**334**
Interest income	58	**71**
Finance costs	(847)	**(893)**
Share of results of associates and joint ventures	(35)	**(26)**
Profit before income tax from continuing operations	1,267	**1,496**

4. OTHER GAINS, NET

In HK$ million	Six months ended June 30, 2017 (Restated)	Six months ended June 30, 2018 (Unaudited)
Fair value movement of derivative financial instruments	(2)	**11**
Net realized gains on disposal of AFS financial assets	3	**–**
Fair value gain on financial assets at FVPL	–	**307**
Dividend income from financial assets at FVOCI	22	**27**
Provision for impairment of interests in joint ventures	–	**(9)**
Others	2	**(2)**
	25	**334**

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK$ million	Six months ended June 30, 2017 (Restated)	Six months ended June 30, 2018 (Unaudited)
Cost of inventories sold	2,664	**4,042**
Cost of sales, excluding inventories sold	5,738	**6,110**
Depreciation of property, plant and equipment	828	**820**
Depreciation of right-of-use assets	935	**964**
Amortization of intangible assets	964	**947**
Amortization of fulfillment costs	206	**223**
Amortization of customer acquisition costs	497	**502**
Amortization of land lease premium – interests in leasehold land	9	**8**
Finance costs on borrowings	767	**790**

6. INCOME TAX

In HK$ million	Six months ended June 30, 2017 (Restated)	Six months ended June 30, 2018 (Unaudited)
Current income tax:		
Hong Kong profits tax	319	**292**
Overseas tax	44	**14**
Movement of deferred income tax	(152)	**131**
	211	**437**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the respective jurisdictions.

7. DIVIDENDS

a. Dividends attributable to the interim period

In HK$ million	Six months ended June 30, 2017 (Unaudited)	**Six months ended June 30, 2018 (Unaudited)**
Interim dividend declared after the end of the interim period of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share	662	**688**

At a meeting held on August 7, 2018, the directors declared an interim dividend of 8.91 HK cents per ordinary share for the year ending December 31, 2018. This interim dividend is not reflected as a dividend payable in this unaudited condensed consolidated interim financial information.

b. Dividends approved and paid during the interim period

In HK$ million	Six months ended June 30, 2017 (Unaudited)	**Six months ended June 30, 2018 (Unaudited)**
Final dividend in respect of the previous financial year, approved and paid during the interim period of 21.18 HK cents (2017: 20.17 HK cents) per ordinary share	1,557	**1,635**
Less: dividend for shares held by share award schemes	(4)	**(2)**
	1,553	**1,633**

8. DISCONTINUED OPERATIONS

The wireless broadband and related business component in the United Kingdom discontinued by the Group during the period ended June 30, 2018 has been presented as discontinued operations. Analysis of the results of discontinued operations is as follows:

In HK$ million	**Six months ended June 30, 2017 (Unaudited)**
Discontinued operations	
Revenue	**30**
Cost of sales	**(15)**
General and administrative expenses	**(106)**
Other gains, net	**1,165**
Profit before income tax	**1,074**
Income tax	**–**
Profit for the period	**1,074**

9. EARNINGS PER SHARE

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

	Six months ended June 30, 2017 (Restated)	Six months ended **June 30, 2018 (Unaudited)**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share arising from:		
Continuing operations	80	**185**
Discontinued operations	1,074	–
Number of shares		
Weighted average number of ordinary shares	7,719,638,249	**7,719,638,249**
Effect of shares held under the Company's share award schemes	(16,934,119)	**(10,088,884)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,702,704,130	**7,709,549,365**
Effect of shares awarded under the Company's share award schemes	7,984,225	**6,836,525**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,710,688,355	**7,716,385,890**

10. PROPERTY HELD FOR/UNDER DEVELOPMENT

The PCPD and its subsidiaries completed the acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration composed of (i) an initial cash consideration of HK$2,018 million and an adjustment to initial cash consideration of HK$146 million; and (ii) the allotment and issuance of one non-voting participating share of a wholly-owned subsidiary of PCPD to the seller which enables the seller the right to 50% of the dividend distributions. The fair value of the non-voting participating share is approximately HK$133 million and is recognized as non-controlling interests in the consolidated statement of financial position as at June 30, 2018. As at June 30, 2018, the carrying amount of HK$2,172 million was recorded as property held for development in the consolidated statement of financial position.

11. TRADE RECEIVABLES, NET

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

In HK$ million	As at December 31, 2017 (Audited)	**As at June 30, 2018 (Unaudited)**
1 – 30 days	2,366	**2,768**
31 – 60 days	410	**649**
61 – 90 days	248	**301**
91 – 120 days	205	**194**
Over 120 days	692	**958**
	3,921	**4,870**
Less: Impairment loss for doubtful debts	(257)	**(268)**
	3,664	**4,602**

Included in trade receivables, net were amounts due from related parties of HK$61 million and HK$55 million as at June 30, 2018 and December 31, 2017 respectively.

The Group's normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted.

12. SHORT-TERM BORROWINGS

During the six months ended June 30, 2018, certain bank borrowings of approximately HK$7,423 million have been reclassified from long-term liabilities to short-term liabilities as their maturity dates fall due within the next twelve-month period. As at the date of approval of this unaudited condensed consolidated interim financial information, the Group is in the process of finalizing the documentation of the refinancing of this entire balance through long-term borrowings.

As at June 30, 2018, the Group had a total of cash and cash equivalents of HK$8,426 million, short-term deposits of HK$636 million and undrawn banking facilities of approximately HK$16,924 million.

13. TRADE PAYABLES

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

In HK$ million	As at December 31, 2017 (Audited)	**As at June 30, 2018 (Unaudited)**
1 – 30 days	1,393	**1,148**
31 – 60 days	143	**133**
61 – 90 days	43	**63**
91 – 120 days	47	**52**
Over 120 days	462	**479**
	2,088	**1,875**

Included in trade payables were amounts due to related parties of HK$38 million and HK$43 million as at June 30, 2018 and December 31, 2017 respectively.

14. SHARE CAPITAL

	Six months ended			
	June 30, 2017		**June 30, 2018**	
	Number of shares (Unaudited)	Share capital (Unaudited) HK$ million	**Number of shares (Unaudited)**	**Share capital (Unaudited) HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1, and June 30,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

a. The Company had total distributable reserves of HK$18,679 million as at June 30, 2018 (December 31, 2017: HK$18,905 million).

As at the date of this announcement, the Directors are as follows:

Executive Directors
Li Tzar Kai, Richard (Chairman); Srinivas Bangalore Gangaiah (aka BG Srinivas) (Group Managing Director); Hui Hon Hing, Susanna (Group Chief Financial Officer) and Lee Chi Hong, Robert

Non-Executive Directors
Tse Sze Wing, Edmund, GBS; Lu Yimin (Deputy Chairman); Li Fushen; Shao Guanglu and Wei Zhe, David

Independent Non-Executive Directors
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP; Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert; David Christopher Chance and David Lawrence Herzog

Forward-Looking Statements

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