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PCCW Limited
電訊盈科有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

The directors (“Directors”) of PCCW Limited (“PCCW” or the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended December 31, 2018.

- Core revenue increased by 5% to HK\$38,550 million
- Core EBITDA decreased by 2% to HK\$12,400 million
- Core profit attributable to equity holders of the Company increased by 8% to HK\$1,302 million

- Consolidated revenue increased by 5% to HK\$38,850 million
- Consolidated profit attributable to equity holders of the Company was steady at HK\$897 million

- Basic earnings per share amounted to 11.63 HK cents

- Final dividend of 22.33 HK cents per ordinary share

- Results reflect the continuing operations of the Company

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 reasonable financial results for the year ended December 31, 2018. These results reflect the adoption of several new accounting standards and, for comparison, the results for the year ended December 31, 2017 have been restated as if these new accounting standards had been in place. The results are for the continuing operations of the Company.

Revenue from HKT Limited (“HKT”) for the year ended December 31, 2018 increased by 6% to HK\$35,187 million, underpinned by steady growth in Telecommunications Services (“TSS”) and Mobile Services revenue as well as higher mobile handset sales during the year. Revenue from the Media business grew by 10% as all three platforms of pay TV, free TV and over-the-top (“OTT”) services delivered business expansion. Pay TV benefited from the launch of the Now E service, free TV continued to expand audience reach and awareness and the OTT segment boosted its viewer base and engagement. Revenue from the Solutions business recorded 2% growth as it completed several projects for major public sector and enterprise customers. However, this was partially offset by a shift in the focus of the business in the mainland China market to offer digital technology solutions to our enterprise customers. Overall, core revenue increased by 5% to HK\$38,550 million.

HKT’s EBITDA increased by 2% to HK\$12,558 million for the year ended December 31, 2018 while the Solutions business recorded a steady EBITDA. The Media business continued to invest into new market expansion and unique content to drive future growth. As a result, core EBITDA softened by 2% to HK\$12,400 million. Core profit attributable to equity holders of the Company increased by 8% to HK\$1,302 million as a result of certain investment gains.

Projects at PCPD are progressing as scheduled with revenue boosted by rental income from Pacific Century Place, Jakarta (“PCP, Jakarta”) as tenants started to move in.

As a result, consolidated revenue increased by 5% to HK\$38,850 million and consolidated profit attributable to equity holders of the Company was steady at HK\$897 million for the year ended December 31, 2018. Basic earnings per share was 11.63 HK cents.

The board of Directors (the “Board”) has recommended the payment of a final dividend of 22.33 HK cents per ordinary share for the year ended December 31, 2018.

OUTLOOK

In 2019, the Group's core businesses of media entertainment, IT solutions and telecommunications will continue to safeguard their market-leading positions in Hong Kong while seeking growth also through the development of new business streams and expansion in new markets.

Now TV will reinforce its successful proposition delivering premium content, which includes world class sporting events, to viewers in Hong Kong on multiple platforms. Viu OTT has established its presence in some of the most promising markets in Asia and will provide the growing population of online video viewers with the most relevant and original content.

PCCW Solutions is well-positioned to assist the digital transformation of both the private and public sectors in Hong Kong, mainland China, and other places in the region where it is actively expanding into following some notable success cases in the past year.

Leveraging its competitive advantage as the leading connectivity provider, HKT will continue to innovate to serve customers' needs for a smarter home, smarter lifestyle and smarter business operations.

Over the years, PCCW has built robust operations across our businesses. While the world economic environment is faced with many challenges in the coming year, the Group will be able to continue to pursue its growth objectives by playing a key role in this era of digital transformation.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Continuing operations							
Revenue							
HKT	15,211	17,856	33,067	17,022	18,165	35,187	6%
HKT (excluding Mobile Product Sales)	13,519	15,398	28,917	13,648	15,782	29,430	2%
Mobile Product Sales	1,692	2,458	4,150	3,374	2,383	5,757	39%
Now TV Business	1,334	1,386	2,720	1,392	1,463	2,855	5%
Free TV Business	94	91	185	99	105	204	10%
OTT Business	337	381	718	394	515	909	27%
Solutions Business	1,685	2,317	4,002	1,709	2,384	4,093	2%
Eliminations	(1,558)	(2,466)	(4,024)	(1,807)	(2,891)	(4,698)	(17)%
Core revenue	17,103	19,565	36,668	18,809	19,741	38,550	5%
PCPD	107	57	164	165	135	300	83%
Consolidated revenue	17,210	19,622	36,832	18,974	19,876	38,850	5%
Cost of sales	(8,402)	(9,942)	(18,344)	(10,152)	(10,490)	(20,642)	(13)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and right-of-use assets, net	(3,304)	(2,748)	(6,052)	(3,349)	(2,624)	(5,973)	1%
EBITDA¹							
HKT	5,547	6,738	12,285	5,639	6,919	12,558	2%
Now TV Business	167	249	416	198	273	471	13%
Free TV Business	(104)	(116)	(220)	(131)	(219)	(350)	(59)%
OTT Business	(115)	(118)	(233)	(144)	(192)	(336)	(44)%
Solutions Business	378	701	1,079	271	809	1,080	-
Other Businesses	(251)	(342)	(593)	(193)	(400)	(593)	-
Eliminations	(21)	(41)	(62)	(87)	(343)	(430)	>(500)%
Core EBITDA¹	5,601	7,071	12,672	5,553	6,847	12,400	(2)%
PCPD	(97)	(139)	(236)	(80)	(85)	(165)	30%
Consolidated EBITDA¹	5,504	6,932	12,436	5,473	6,762	12,235	(2)%
Core EBITDA¹ Margin	33%	36%	35%	30%	35%	32%	
Consolidated EBITDA¹ Margin	32%	35%	34%	29%	34%	31%	
Depreciation	(1,763)	(1,755)	(3,518)	(1,784)	(1,726)	(3,510)	-
Amortization	(1,676)	(1,610)	(3,286)	(1,680)	(1,801)	(3,481)	(6)%
Gain/(Loss) on disposal of property, plant and equipment and right-of-use assets, net	1	(4)	(3)	1	(7)	(6)	(100)%
Other gains/(losses), net	25	(60)	(35)	334	309	643	n/a
Interest income	58	75	133	71	63	134	1%
Finance costs	(847)	(789)	(1,636)	(893)	(1,006)	(1,899)	(16)%
Share of results of associates and joint ventures	(35)	89	54	(26)	94	68	26%
Profit before income tax	1,267	2,878	4,145	1,496	2,688	4,184	1%

- 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, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*
- Note 2 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*
- Note 3 Group capital expenditure includes additions to property, plant and equipment and interests in leasehold land.*

HKT

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT Revenue	15,211	17,856	33,067	17,022	18,165	35,187	6%
HKT Revenue (excluding Mobile Product Sales)	13,519	15,398	28,917	13,648	15,782	29,430	2%
Mobile Product Sales	1,692	2,458	4,150	3,374	2,383	5,757	39%
HKT EBITDA¹	5,547	6,738	12,285	5,639	6,919	12,558	2%
<i>HKT EBITDA¹ margin</i>	36%	38%	37%	33%	38%	36%	
HKT Adjusted Funds Flow	2,129	2,783	4,912	2,205	2,966	5,171	5%

HKT recorded another strong financial performance in 2018 reflecting the continuous improvement across all lines of business in terms of both operational and capital efficiencies. The results also demonstrated our continued leadership in the market through the enhancement of solutions-based offerings to both consumer customers and the enterprise sector.

Total revenue for the year ended December 31, 2018 increased by 6% to HK\$35,187 million, underpinned by steady growth in TSS and Mobile Services revenue as well as higher mobile handset sales during the year. Mobile Product Sales increased by 39% to HK\$5,757 million, as compared to HK\$4,150 million a year earlier.

Total EBITDA for the year was HK\$12,558 million, an increase of 2% over the previous year. Profit attributable to holders of share stapled units of the HKT Trust and HKT (“Share Stapled Units”) was HK\$4,825 million, an increase of 2% over the previous year. Basic earnings per Share Stapled Unit was 63.73 HK cents.

Adjusted funds flow for the year ended December 31, 2018 expanded by 5% to HK\$5,171 million. Adjusted funds flow per Share Stapled Unit correspondingly grew by 5% to 68.29 HK cents.

HKT recommended the payment of a final distribution of 39.17 HK cents per Share Stapled Unit for the year ended December 31, 2018. This brings the 2018 full-year distribution to 68.29 HK cents per Share Stapled Unit, representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

For a more detailed review of the performance of HKT, please refer to its 2018 annual results announcement released on February 22, 2019.

Now TV Business

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Now TV Business Revenue	1,334	1,386	2,720	1,392	1,463	2,855	5%
Now TV Business EBITDA¹	167	249	416	198	273	471	13%
Now TV Business EBITDA¹ margin	13%	18%	15%	14%	19%	16%	

Revenue for the Now TV business for the year ended December 31, 2018 increased by 5% to HK\$2,855 million compared to HK\$2,720 million for the previous year. This growth reflected the impact of the 2018 FIFA World Cup™ on new Now TV subscriptions and revenue generated from event-specific passes as well as the launch of the Now E service, a one-stop entertainment platform focused on expanding the pay TV service beyond the traditional customer base to digitally savvy viewers. As a result, Now TV enlarged its installed base to 1,344,000 as of December 2018 with an exit average revenue per user (“ARPU”) of HK\$180.

Meanwhile, steps were taken to rationalize content cost which led to EBITDA for the year ended December 31, 2018 expanding by 13% to HK\$471 million, as compared to HK\$416 million a year ago. The EBITDA margin improved from 15% in 2017 to 16% in 2018.

With the securing of the exclusive broadcast rights of the Premier League for the next three seasons to 2021/22 and the addition of UEFA Champions League to its already strong sports coverage, Now TV continues to maintain its position as the leading pay TV service provider in Hong Kong.

Free TV Business

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Free TV Business Revenue	94	91	185	99	105	204	10%
Free TV Business EBITDA¹	(104)	(116)	(220)	(131)	(219)	(350)	(59)%

Revenue for ViuTV grew by 10% to HK\$204 million for the year ended December 31, 2018 from HK\$185 million a year ago. This growth reflected a 36% increase in advertising revenue during the year, largely driven by the 2018 FIFA World Cup™ and a growing library of drama and variety shows. However, the strong growth in advertising revenue was moderated by the absence of significant drama distribution revenue in 2018 which was apparent in 2017.

Due to the continued investments in content acquisition and production, the EBITDA loss widened to HK\$350 million for the year ended December 31, 2018, compared to an EBITDA loss of HK\$220 million a year ago. These investments are building the foundation for revenue growth in the coming periods.

ViuTV has expanded its business scope to include artiste management, events and shows riding on the success of a number of its drama and variety programs. These initiatives offer additional revenue opportunities beyond TV advertising and are expected to contribute to revenue in future periods. With its newly renovated state-of-art studio facilities, ViuTV will ramp up the volume and quality of its drama production to expand its viewership base in Hong Kong and fulfil demand from overseas markets.

OTT Business

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
OTT Business Revenue	337	381	718	394	515	909	27%
OTT Business EBITDA¹	(115)	(118)	(233)	(144)	(192)	(336)	(44)%

Revenue from the OTT business grew by 27% to HK\$909 million from HK\$718 million a year ago. Video OTT revenue increased by 39% underpinned by the deepening penetration and take-up of the premium Viu service in the 16 markets across the region that it is now available. In particular, Viu is experiencing notable traction in Indonesia and Thailand which were two of our fastest growing markets by revenue. The positive momentum is, in part, due to the increasing library of Viu Original productions, which offer high quality, locally relevant content.

The Viu service recorded 30.7 million monthly active users as of December 31, 2018 and 37.5 billion video minutes in 2018, representing significant year-on-year growth of 89% and 117% respectively. As a result of this active user engagement, advertising and other revenue generated by the OTT business surged by 93% from HK\$203 million to HK\$392 million year-on-year. Subscription revenue was steady at HK\$517 million for the year ended December 31, 2018 as compared to HK\$515 million a year ago. The balanced mix of advertising and subscription revenue attests to the effectiveness of the freemium model that Viu has adopted.

Continued investments were made in personnel and marketing to enhance Viu's market penetration and drive user engagement. Accordingly, the OTT business recorded an EBITDA loss of HK\$336 million for the year ended December 31, 2018 compared to the EBITDA loss of HK\$233 million a year ago.

Our OTT business will continue to invest in its Viu Original productions to meet the demand in various markets for high quality content and to further boost user engagement and monetization.

Solutions Business

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Solutions Business Revenue	1,685	2,317	4,002	1,709	2,384	4,093	2%
Solutions Business EBITDA¹	378	701	1,079	271	809	1,080	-
<i>Solutions Business EBITDA¹ margin</i>	22%	30%	27%	16%	34%	26%	

The Solutions business recorded a 2% growth in revenue to HK\$4,093 million for the year ended December 31, 2018 as we completed several major projects for public sector and enterprise customers including the Immigration Department of Hong Kong and Global Switch. However, this was partially offset by a slowdown in our business in mainland China as we shifted our focus from delivering traditional IT services to total technology solutions that enable enterprises to digitally transform their business processes.

The Solutions business continued to maintain its strength in the large IT spending sectors of telecom and the HKSAR Government, which accounted for 41% and 25%, respectively, of revenue for the year ended December 31, 2018. In addition, the Solutions business has been developing proprietary vertical solutions in sectors such as travel and transportation to help enterprise customers undergo their digital transformation.

The Solutions business is also witnessing signs of progress in building its reputation, customer base and delivery resources in markets outside of Hong Kong and mainland China including Singapore and the Philippines. These markets will provide new sources of revenue growth as well as cost-effective, high quality resources to service projects in Hong Kong. As of the end of 2018, the Solutions business had 506 staff in its offshore delivery center in the Philippines.

EBITDA for the year ended December 31, 2018 was steady at HK\$1,080 million with the EBITDA margin at 26%. While there was growth in project-based EBITDA, it was reinvested to support the growth in new markets and develop new capabilities and expertise within the Solutions business.

The Solutions business had secured orders of HK\$7,193 million as at the year ended December 31, 2018. Significant wins included projects related to the airport terminal communications and networking systems expansion and digital signage solutions for car parks and roads around the Hong Kong International Airport. The Solutions business also secured a data center expansion mandate for a leading global investment bank.

With its data center facilities operating at close to full utilization, the Solutions business has recently commenced building a Tier 3 data center facility with 15 MW capacity and a total floor area of over 185,000 square feet to address the growing demand for data center capacity in Hong Kong. Upon completion, the total number of racks in the data centers operated by the Solutions business will expand from around 7,000 in 2017 to over 9,000.

Riding on its strong presence in Hong Kong and a solid momentum in its regional expansion, the Solutions business will continue to develop its expertise and capabilities to support its customers' digital transformation initiatives.

PCPD

PCPD recorded total revenue of HK\$300 million for the year ended December 31, 2018 compared with total revenue of HK\$164 million a year earlier. The improvements were attributable to an increase of gross rental income from Indonesia to approximately HK\$138 million for the year ended December 31, 2018, as compared to approximately HK\$3 million in 2017 as tenants began moving in. PCPD's loss attributable to equity holders was HK\$437 million for the year ended December 31, 2018 compared with HK\$339 million a year earlier.

PCP, Jakarta had a stable performance in 2018. To date, approximately 84% of the office floor space has been reserved or committed.

In 2018, PCPD arranged several successful sales events in Japan and Thailand for its project in Hokkaido, Park Hyatt Niseko Hanazono and Branded Residences of which 98 units have been sold or reserved to date representing 86% of available units for sale. The development is expected to be completed in late 2019 with revenue starting to be recognized in 2020.

The project in Phang-nga Thailand is proceeding according to schedule with the announcement of the construction of golf course and supporting facilities in December 2018 which are considered beneficial to the overall development.

In January 2018, PCPD acquired Nos. 3-6 Glenealy in Central and plans to redevelop it into either a luxury residence or for commercial use (subject to obtaining relevant government approvals).

For a more detailed review of the performance of PCPD, please refer to its 2018 annual results announcement released on February 21, 2019.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the year ended December 31, 2018 was steady at HK\$593 million (2017: HK\$593 million).

Eliminations

Eliminations for the year ended December 31, 2018 were HK\$4,698 million (2017: HK\$4,024 million). This reflects the continued collaboration amongst the Company's business segments to harvest the quad-play position for our consumer segment and to offer total solutions for our enterprise customers.

Costs

Cost of Sales

For the year ended December 31, HK\$ million	2017 (Restated)			2018			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT	7,124	8,848	15,972	8,858	9,122	17,980	(13)%
The Group (excluding PCPD)	8,377	9,930	18,307	10,125	10,467	20,592	(12)%
Consolidated	8,402	9,942	18,344	10,152	10,490	20,642	(13)%

HKT's cost of sales for the year ended December 31, 2018 increased by 13% to HK\$17,980 million, reflecting the costs associated with the increase in Mobile Product Sales during the year. Gross margin was 49% for the year, as compared to 52% a year earlier, mainly due to the dilutionary impact of higher proportion of Mobile Product Sales. Excluding Mobile Product Sales, the gross margin was steady at 59% for the year.

Cost of sales for the core businesses increased by 12%, primarily driven by the increase at HKT of higher mobile handset sales. Gross margin for the core businesses was 47% as compared to 50% a year ago.

The Group's consolidated total cost of sales for the year ended December 31, 2018 increased by 13% to HK\$20,642 million.

General and Administrative Expenses

For the year ended December 31, 2018, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and right-of-use assets, net, ("operating costs") decreased by 1% year-on-year to HK\$5,973 million. This was mainly driven by sustained improvements in operating efficiencies at HKT. Although investments were made in marketing activities in the Media business necessary to support the rollout of the OTT business to new markets and geographical expansion of the Solutions business, the operating costs to revenue ratio improved from 16% to 15% for the year ended December 31, 2018.

Depreciation expenses remained stable at HK\$3,510 million while amortization expenses increased by 6% to HK\$3,481 million mainly due to content investment in the OTT and Free TV businesses in the Media segment. Content related amortization for the year was HK\$669 million, compared to HK\$528 million a year ago.

As a result, general and administrative expenses increased slightly by 1% year-on-year to HK\$12,970 million.

EBITDA¹

Core EBITDA for the year ended December 31, 2018 decreased by 2% to HK\$12,400 million with the margin declining to 32% due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the core EBITDA margin was 38%.

Other (losses)/gains, net

Net other gains of HK\$643 million, primarily representing gains on the disposal of certain assets and Media investments as well as dividend income from our investment portfolio, were recorded for the year ended December 31, 2018, as compared to net losses of HK\$35 million a year ago.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2018 was steady at HK\$134 million. Finance costs increased by 16% to HK\$1,899 million mainly due to the overall increase in HIBOR and an increase in borrowings at PCPD to support ongoing development projects. As a result, net finance costs increased by 17% to HK\$1,765 million for the year ended December 31, 2018. The average cost of debt was 3.3% as compared to 3.0% a year ago.

Income Tax

Income tax expense for the year ended December 31, 2018 was HK\$1,134 million, as compared to HK\$1,061 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\$2,153 million for the year ended December 31, 2018 (2017: HK\$2,189 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2018 was steady at HK\$897 million (2017: HK\$895 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and 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 debt² was HK\$50,240 million as at December 31, 2018 (December 31, 2017: HK\$47,580 million). Cash and short-term deposits totaled HK\$7,361 million as at December 31, 2018 (December 31, 2017: HK\$13,267 million). The Group, excluding HKT and PCPD, had net debt of HK\$278 million as at December 31, 2018.

As at December 31, 2018, the Group had a total of HK\$40,112 million in committed bank loan facilities available for liquidity management, of which HK\$15,092 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK\$27,442 million, of which HK\$4,710 million remained undrawn.

The Group's gross debt² to total assets was 53% as at December 31, 2018 (December 31, 2017: 51%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 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 EXPENDITURE³

Group capital expenditure for the year ended December 31, 2018 was HK\$3,902 million (2017: HK\$3,410 million), of which HKT accounted for about 66% (2017: 78%). Capital expenditure at HKT was primarily incurred for mobile coverage expansion, critical infrastructure enhancements to prepare for 5G, continued demand for fiber-to-the-home (“FTTH”) services and customized solutions for enterprises. There was an increase in capital expenditure for the Media business mainly for the relocation and upgrading of its production studio facilities. Capital expenditure for the Solutions business decreased but is expected to ramp up again to expand data center capacity in Hong Kong to meet customer demand. There was an increase in capital expenditure at PCPD to support the Park Hyatt Niseko Hanazono and Branded Residences project.

The Group will continue to invest in building digital capabilities to enable its growth in new areas and prudently invest in building a 5G network 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 December 31, 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 December 31, 2018, certain assets of the Group with an aggregate carrying value of HK\$5,052 million (2017: HK\$1,128 million) were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2017	2018
Performance guarantees	572	566
Others	130	160
	702	726

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 December 31, 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 subject to certain corporate guarantee obligations to guarantee the performance of its subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.

HUMAN RESOURCES

The Group had over 23,600 employees as at December 31, 2018 (2017: 24,000) located in over 47 countries and cities. About 63% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 22.33 HK cents (2017: 21.18 HK cents) per ordinary share for the year ended December 31, 2018 to shareholders whose names appear on the register of members of the Company on Friday, May 17, 2019, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 9, 2019 ("AGM"). An interim dividend of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share for the six months ended June 30, 2018 was paid to shareholders of the Company in October 2018.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Friday, May 17, 2019. The Company's register of members will be closed from Thursday, May 16, 2019 to Friday, May 17, 2019 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final 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 (the "Share Registrar"), for registration no later than 4:30 p.m. on Wednesday, May 15, 2019. Subject to the approval of shareholders of the Company at the AGM, dividend warrants will be despatched to shareholders on or around Tuesday, June 11, 2019.

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

The record date for determining the entitlement of the shareholders of the Company to attend and vote at the AGM will be Friday, May 3, 2019. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Share Registrar for registration no later than 4:30 p.m. on Friday, May 3, 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 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 audited consolidated financial statements of the Group for the year ended December 31, 2018.

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 year ended December 31, 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL 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 annual 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, February 25, 2019

AUDITED CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2018

In HK\$ million (except for earnings per share)	Note(s)	2017 (Restated [#])	2018
Continuing operations			
Revenue	3, 4	36,832	38,850
Cost of sales		(18,344)	(20,642)
General and administrative expenses		(12,859)	(12,970)
Other (losses)/gains, net	5	(35)	643
Interest income		133	134
Finance costs		(1,636)	(1,899)
Share of results of associates		83	97
Share of results of joint ventures		(29)	(29)
Profit before income tax	3, 6	4,145	4,184
Income tax	7	(1,061)	(1,134)
Profit for the year from continuing operations		3,084	3,050
Discontinued operations			
Profit for the year from discontinued operations	9	1,143	–
Profit for the year		4,227	3,050
Profit attributable to:			
Equity holders of the Company		2,038	897
Non-controlling interests		2,189	2,153
		4,227	3,050
Profit attributable to equity holders of the Company arising from:			
Continuing operations		895	897
Discontinued operations		1,143	–
		2,038	897
Earnings per share	10		
Basic earnings per share arising from:			
Continuing operations		11.62 cents	11.63 cents
Discontinued operations		14.83 cents	–
		26.45 cents	11.63 cents
Diluted earnings per share arising from:			
Continuing operations		11.60 cents	11.62 cents
Discontinued operations		14.82 cents	–
		26.42 cents	11.62 cents

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

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

In HK\$ million	2017 (Restated [#])	2018
Profit for the year	4,227	3,050
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	38	(30)
Changes in the fair value of equity instruments at fair value through other comprehensive income	–	(81)
	38	(111)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	324	(357)
- reclassification of currency translation reserve on disposal of subsidiaries	172	–
Available-for-sale financial assets:		
- changes in fair value	106	–
- transfer to consolidated income statement on disposal	(9)	–
Cash flow hedges:		
- effective portion of changes in fair value	(330)	(173)
- transfer from equity to consolidated income statement	(338)	34
Costs of hedging	–	46
	(75)	(450)
Other comprehensive loss for the year	(37)	(561)
Total comprehensive income for the year	4,190	2,489
Attributable to:		
Equity holders of the Company	2,177	425
Non-controlling interests	2,013	2,064
Total comprehensive income for the year	4,190	2,489
Total comprehensive income for the year attributable to equity holders of the Company arising from:		
Continuing operations	834	425
Discontinued operations	1,343	–
	2,177	425

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

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

In HK\$ million	The Group			(Additional information)	
		As at		The Company	
	Note*	January 1, 2017 (Restated [#])	December 31, 2017 (Restated [#])	December 31, 2018	December 31, 2017 2018
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		19,701	21,681	23,900	–
Right-of-use assets		3,705	3,237	4,175	–
Investment properties		3,216	3,744	3,517	–
Interests in leasehold land		422	404	385	–
Properties held for/under development	11	924	1,188	3,164	–
Goodwill		18,095	18,128	18,192	–
Intangible assets		9,190	9,603	10,996	–
Fulfillment costs		1,378	1,378	1,369	–
Customer acquisition costs		864	797	807	–
Contract assets		360	353	302	–
Interests in subsidiaries		–	–	–	17,792
Interests in associates		725	719	778	–
Interests in joint ventures		628	592	530	–
Available-for-sale financial assets		1,057	2,021	–	–
Financial assets at fair value through other comprehensive income		–	–	1,102	–
Financial assets at fair value through profit or loss		–	–	731	–
Derivative financial instruments		289	225	152	2
Deferred income tax assets		1,134	1,215	1,194	–
Other non-current assets		891	1,013	1,243	–
Restricted cash		–	–	217	–
		62,579	66,298	72,754	17,794
					18,812

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2018

In HK\$ million	The Group			(Additional information)	
		As at	December 31,	The Company	December 31,
	Note*	January 1, 2017 (Restated [#])	December 31, 2017 (Restated [#])	December 31, 2017	December 31, 2018
Current assets					
Amounts due from subsidiaries		–	–	–	12,746
Sales proceeds held in stakeholders' accounts		510	508	507	–
Properties under development		–	–	770	–
Inventories		943	911	1,280	–
Prepayments, deposits and other current assets		4,436	4,452	3,748	16
Contract assets		3,064	3,090	2,690	–
Trade receivables, net	12	3,778	3,664	4,799	–
Amounts due from related companies		98	86	110	–
Derivative financial instruments		–	1	4	1
Other financial assets		–	79	–	–
Tax recoverable		16	19	18	–
Restricted cash		139	149	186	–
Short-term deposits		453	1,629	604	160
Cash and cash equivalents		4,751	11,638	6,757	4,364
		18,188	26,226	21,473	17,287
Assets of disposal group classified as held for sale		807	–	–	–
		18,995	26,226	21,473	17,287
					16,545

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2018

In HK\$ million	The Group			(Additional information)		
	Note*	As at January 1, 2017 (Restated [#])	As at December 31, 2017 (Restated [#])	December 31, 2018	The Company As at December 31, 2017	December 31, 2018
Current liabilities						
Short-term borrowings		(457)	(622)	(608)	–	–
Trade payables	13	(2,731)	(2,088)	(1,952)	–	–
Accruals and other payables		(6,794)	(7,515)	(6,681)	(10)	(11)
Amount payable to the Government under the Cyberport Project Agreement		(321)	(321)	(322)	–	–
Derivative financial instruments		–	(15)	–	–	–
Carrier licence fee liabilities		(173)	(173)	(173)	–	–
Amounts due to related companies		(35)	(1)	(1)	–	–
Advances from customers		(301)	(253)	(355)	–	–
Contract liabilities		(1,409)	(1,538)	(1,856)	–	–
Lease liabilities		(1,729)	(1,446)	(1,608)	–	–
Current income tax liabilities		(1,115)	(1,155)	(1,036)	–	–
		(15,065)	(15,127)	(14,592)	(10)	(11)
Liabilities of disposal group classified as held for sale		(36)	–	–	–	–
		(15,101)	(15,127)	(14,592)	(10)	(11)
Non-current liabilities						
Long-term borrowings		(45,131)	(46,613)	(49,307)	–	–
Amounts due to subsidiaries		–	–	–	(3,100)	(3,206)
Derivative financial instruments		(98)	(282)	(263)	(104)	(82)
Deferred income tax liabilities		(2,891)	(3,208)	(3,674)	–	–
Defined benefit retirement schemes liability		(154)	(105)	(135)	–	–
Carrier licence fee liabilities		(544)	(455)	(357)	–	–
Contract liabilities		(851)	(1,026)	(1,010)	–	–
Lease liabilities		(2,159)	(2,005)	(2,871)	–	–
Other long-term liabilities		(810)	(1,811)	(2,409)	–	–
		(52,638)	(55,505)	(60,026)	(3,204)	(3,288)
Net assets		13,835	21,892	19,609	31,867	32,058

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2018

In HK\$ million	The Group			(Additional information)		
		As at		The Company		
	Note*	January 1, 2017 (Restated [#])	December 31, 2017 (Restated [#])	December 31, 2018	December 31, 2017	December 31, 2018

CAPITAL AND RESERVES

Share capital	14	12,954	12,954	12,954	12,954	12,954
Reserves		(1,567)	6,236	4,141	18,913	19,104

Equity attributable to equity

holders of the Company		11,387	19,190	17,095	31,867	32,058
Non-controlling interests		2,448	2,702	2,514	–	–

Total equity		13,835	21,892	19,609	31,867	32,058
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* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2017 and 2018 is presented only as additional information to these consolidated financial statements.

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

NOTES

1. BASIS OF PREPARATION

The accounting policies and methods of computation used in preparing the financial information extracted from the audited consolidated financial statements are consistent with those followed in preparing the annual financial statements of PCCW Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2017, except for the adoption of the following new or amended Hong Kong Financial Reporting Standards (the “new HKFRSs”), which are relevant to the Group’s operation and are effective for accounting periods beginning on or after January 1, 2018. The Hong Kong Financial Reporting Standards include all individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

1. BASIS OF PREPARATION (CONTINUED)

The financial information relating to the years ended December 31, 2017 and 2018 included in this preliminary announcement of annual results for the year ended December 31, 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The 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) and will deliver the financial statements for the year ended December 31, 2018 in due course.

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS

This note explains the impact of the adoption of HKFRS 9 (2014) *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, the early adoption of HKFRS 16 *Leases* and the reclassification of discontinued operations 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 9), prior year financial statements had to be restated as follows:

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

Consolidated income statement for the year ended December 31, 2017 (extract)	Reclassification		HKFRS 15 Note 2(a)	HKFRS 16 Note 2(b)	Restated
	As originally presented	of discontinued operations (Note 9)			
Revenue	37,050	(30)	(188)	–	36,832
Cost of sales	(16,857)	16	(2,032)	529	(18,344)
General and administrative expenses	(14,322)	107	1,790	(434)	(12,859)
Other gains/(losses), net	1,201	(1,236)	–	–	(35)
Interest income	134	–	–	(1)	133
Finance costs	(1,526)	–	–	(110)	(1,636)
Profit before income tax from continuing operations*	5,734	(1,143)	(430)	(16)	4,145
Income tax	(1,134)	–	71	2	(1,061)
Profit for the year from continuing operations	4,600	(1,143)	(359)	(14)	3,084
Profit for the year from discontinued operations	–	1,143	–	–	1,143
Profit for the year	4,600	–	(359)	(14)	4,227
Earnings per share					
Basic earnings per share arising from:					
Continuing operations (cents)	29.15	(14.83)	(2.47)	(0.23)	11.62
Discontinued operations (cents)	–	14.83	–	–	14.83
	29.15	–	(2.47)	(0.23)	26.45
Diluted earnings per share arising from:					
Continuing operations (cents)	29.12	(14.82)	(2.47)	(0.23)	11.60
Discontinued operations (cents)	–	14.82	–	–	14.82
	29.12	–	(2.47)	(0.23)	26.42

In HK\$ million

Consolidated statement of comprehensive income for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 Note 2(a)	HKFRS 16 Note 2(b)	Restated
Profit for the year	4,600	(359)	(14)	4,227
Exchange differences on translating foreign operations	323	–	1	324
Total comprehensive income for the year*	4,562	(359)	(13)	4,190
Attributable to:				
Equity holders of the Company	2,384	(190)	(17)	2,177
Non-controlling interests	2,178	(169)	4	2,013
Total comprehensive income for the year	4,562	(359)	(13)	4,190

* 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 AND DISCONTINUED OPERATIONS (CONTINUED)

In HK\$ million

Consolidated statement of financial position (extract)	As at December 31, 2016 As originally presented	HKFRS 15 Note 2(a)	HKFRS 16 Note 2(b)	As at January 1, 2017 Restated
ASSETS AND LIABILITIES				
Non-current assets				
Right-of-use assets	–	–	3,705	3,705
Intangible assets	11,982	(2,792)	–	9,190
Fulfillment costs	–	1,378	–	1,378
Customer acquisition costs	–	864	–	864
Contract assets	–	360	–	360
Other non-current assets	897	–	(6)	891
Current assets				
Prepayments, deposits and other current assets	9,019	(4,467)	(116)	4,436
Contract assets	–	3,064	–	3,064
Current liabilities				
Accruals and other payables	(6,844)	–	50	(6,794)
Advances from customers	(2,160)	1,859	–	(301)
Contract liabilities	–	(1,409)	–	(1,409)
Lease liabilities	–	–	(1,729)	(1,729)
Current income tax liabilities	(1,327)	200	12	(1,115)
Non-current liabilities				
Deferred income tax liabilities	(2,916)	–	25	(2,891)
Deferred income	(1,071)	1,071	–	–
Contract liabilities	–	(851)	–	(851)
Lease liabilities	–	–	(2,159)	(2,159)
Net assets*	14,776	(723)	(218)	13,835
CAPITAL AND RESERVES				
Reserves	(928)	(452)	(187)	(1,567)
Equity attributable to equity holders of the Company*	12,026	(452)	(187)	11,387
Non-controlling interests	2,750	(271)	(31)	2,448
Total equity*	14,776	(723)	(218)	13,835

* 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 AND DISCONTINUED OPERATIONS (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 AND DISCONTINUED OPERATIONS (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 years 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, solutions and other services, sale of handsets, equipment and gifts offered in the contracts.

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 stand-alone 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, solutions 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 and profit attributable to equity holders of the Company for the year ended December 31, 2017 of HK\$452 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\$2,220 million for the year ended December 31, 2017.

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.

2. CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS (CONTINUED)

(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 years 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 subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. 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 stand-alone 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.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 and profit attributable to equity holders of the Company for the year ended December 31, 2017 of HK\$187 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\$1,994 million for the year ended December 31, 2017.

Cash payments for the settlement of lease liabilities for the year ended December 31, 2017 of HK\$1,978 million were required to be reclassified from operating activities to financing activities according to HKFRS 16 in the restated consolidated statement of cash flows. The Group's total net cash flow is unaffected.

2. CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS (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 were reclassified on January 1, 2018. Certain financial assets with carrying value of HK\$1,183 million and HK\$917 million were reclassified to financial assets at FVOCI and financial assets at FVPL respectively according to the Group's business model, and the nature and 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 and OTT digital media entertainment services 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.

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, right-of-use assets 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 year ended December 31, 2017 (Restated)
(In HK\$ million)

	Reportable segments					Total	Other [#]	Con- solidated
	HKT	Media Business	Solutions Business	PCPD	Elimina- tions			
REVENUE								
Total Revenue	33,067	3,623	4,002	164	(4,024)	36,832	–	36,832
Revenue from contracts with customers: Timing of revenue recognition								
At a point in time	5,636	91	429	–	(312)	5,844	–	5,844
Over time	27,369	3,532	3,573	147	(3,705)	30,916	–	30,916
Revenue from other sources:								
Rental income	62	–	–	17	(7)	72	–	72
	33,067	3,623	4,002	164	(4,024)	36,832	–	36,832
RESULTS								
EBITDA	12,285	(37)	1,079	(236)	(62)	13,029	(593)	12,436

For the year ended December 31, 2018
(In HK\$ million)

	Reportable segments					Total	Other [#]	Con- solidated
	HKT	Media Business	Solutions Business	PCPD	Elimina- tions			
REVENUE								
Total Revenue	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
Revenue from contracts with customers: Timing of revenue recognition								
At a point in time	7,422	170	356	–	(139)	7,809	–	7,809
Over time	27,703	3,798	3,737	160	(4,552)	30,846	–	30,846
Revenue from other sources:								
Rental income	62	–	–	140	(7)	195	–	195
	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
RESULTS								
EBITDA	12,558	(215)	1,080	(165)	(430)	12,828	(593)	12,235

[#] Other primarily comprises corporate support functions.

3. SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	2017 (Restated)	2018
Total segment EBITDA arising from continuing operations	12,436	12,235
Loss on disposal of property, plant and equipment and right-of-use assets, net	(3)	(6)
Depreciation and amortization	(6,804)	(6,991)
Other (losses)/gains, net	(35)	643
Interest income	133	134
Finance costs	(1,636)	(1,899)
Share of results of associates and joint ventures	54	68
Profit before income tax from continuing operations	4,145	4,184

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

In HK\$ million	2017 (Restated)	2018
Hong Kong (place of domicile)	30,660	32,185
Mainland China, Macau and Taiwan, China	970	960
Others	5,202	5,705
	36,832	38,850

As at December 31, 2018, the total non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong are HK\$56,983 million (2017 (restated): HK\$51,380 million), and the total of these non-current assets located in other countries are HK\$12,229 million (2017 (restated): HK\$11,320 million).

4. REVENUE

In HK\$ million	2017 (Restated)	2018
Revenue from contracts with customers	36,760	38,655
Revenue from other sources: rental income	72	195
	36,832	38,850

(a) Revenue recognition in relation to contract liabilities

In HK\$ million	2017	2018
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,409	1,538

(b) Unsatisfied long-term fixed-price contracts

In HK\$ million	2018
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31, 2018*	24,635

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to partially or fully unsatisfied performance obligations as of December 31, 2017 is not presented.

Management expects that 51% and 26% of the transaction price allocated to the unsatisfied long-term fixed-price contracts as of December 31, 2018 will be recognized as revenue during the years ending December 31, 2019 and 2020 respectively. The remaining 23% will be recognized as revenue after the year ending December 31, 2020. The amount disclosed above does not include unsatisfied performance obligation that were related to the Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

5. OTHER (LOSSES)/GAINS, NET

In HK\$ million	2017 (Restated)	2018
Gain on disposal of subsidiaries	–	276
Fair value movement of derivative financial instruments	1	15
Net realized gains on disposal of AFS financial assets	68	–
Fair value gains on financial assets at FVPL	–	300
Dividend income from AFS financial assets	38	–
Dividend income from financial assets at FVOCI	–	44
Dividend income from financial assets at FVPL	–	1
Provision for impairment of interests in associates	(154)	–
Reversal of/(provision for) impairment of interests in joint ventures	5	(2)
Others	7	9
	(35)	643

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK\$ million	2017 (Restated)	2018
Cost of inventories sold	6,105	7,754
Cost of sales, excluding inventories sold	12,239	12,888
Depreciation of property, plant and equipment	1,619	1,588
Depreciation of right-of-use assets – land and buildings	1,620	1,614
Depreciation of right-of-use assets – network capacity and equipment	279	308
Amortization of land lease premium – interests in leasehold land	18	18
Amortization of intangible assets	1,864	1,996
Amortization of fulfillment costs	427	422
Amortization of customer acquisition costs	977	1,045

7. INCOME TAX

In HK\$ million	2017 (Restated)	2018
Hong Kong profits tax	763	592
Overseas tax	58	56
Movement of deferred income tax	240	486
	1,061	1,134

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

8. DIVIDENDS

In HK\$ million	2017	2018
Interim dividend declared and paid in respect of current year of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share	662	688
Less: dividend for shares held by share award schemes	(1)	(1)
	661	687
Final dividend declared in respect of previous financial year, approved and paid during the year 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
	2,214	2,320
Final dividend proposed after the end of the reporting period of 22.33 HK cents (2017: 21.18 HK cents) per ordinary share (note (a))	1,635	1,724

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

9. DISCONTINUED OPERATIONS

In 2018, the Group has ceased the remaining operations of its wireless broadband and related business component in the United Kingdom. The consolidated financial statements and the comparative figures have been prepared to reflect the results of the discontinued operations separately.

The results of discontinued operations for the year ended December 31, 2017 are as follows:

In HK\$ million	
Discontinued operations	
Revenue	30
Cost of sales	(16)
General and administrative expenses	(107)
Other gains, net	1,236
<hr/>	
Profit before income tax	1,143
Income tax	–
<hr/>	
Profit for the year	<u>1,143</u>
Translation exchange differences:	
– exchange differences on translating foreign operations	(28)
– reclassification of currency translation reserve on disposal of subsidiaries	(172)
<hr/>	
Other comprehensive loss	<u>(200)</u>

10. EARNINGS PER SHARE

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

	2017 (Restated)	2018
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per share arising from:		
Continuing operations	895	897
Discontinued operations	1,143	–
<hr/>		
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	(14,712,266)	(8,515,434)
<hr/>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,704,925,983	7,711,122,815
Effect of shares awarded under the Company's share award schemes	9,065,515	9,104,240
<hr/>		
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>7,713,991,498</u>	<u>7,720,227,055</u>

11. PROPERTIES HELD FOR/UNDER DEVELOPMENT

PCPD and its subsidiaries completed the acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration comprised (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 entitles the seller the right to 50% of the dividend distributions of the development project. The fair value of the non-voting participating share is estimated to be approximately HK\$133 million and is recognized as non-controlling interests in the consolidated statement of financial position as at December 31, 2018. As at December 31, 2018, the carrying amount of HK\$2,172 million was recorded as properties held for development in the consolidated statement of financial position.

12. TRADE RECEIVABLES, NET

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

In HK\$ million	2017	2018
1 – 30 days	2,366	3,422
31 – 60 days	410	526
61 – 90 days	248	202
91 – 120 days	205	162
Over 120 days	692	699
	3,921	5,011
Less: loss allowance	(257)	(212)
	3,664	4,799

Included in trade receivables, net are amounts due from related parties of HK\$56 million (2017: HK\$55 million).

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.

13. TRADE PAYABLES

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

In HK\$ million	2017	2018
1 – 30 days	1,393	1,287
31 – 60 days	143	140
61 – 90 days	43	59
91 – 120 days	47	28
Over 120 days	462	438
	2,088	1,952

Included in trade payables are amounts due to related parties of HK\$32 million (2017: HK\$43 million).

14. SHARE CAPITAL

	Year ended December 31,			
	2017		2018	
	Number of shares	Share capital HK\$ million	Number of shares	Share capital HK\$ million
Ordinary shares of no par value, issued and fully paid:				
As at January 1, and				
December 31,	7,719,638,249	12,954	7,719,638,249	12,954

The Company had total distributable reserves of HK\$19,104 million as at December 31, 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; Li Fushen (Deputy Chairman); Shao Guanglu; Zhu Keping and Wei Zhe, David

Independent Non-Executive Directors

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.