HKT

ANNUAL REPORT 2012

stock code: 6823

PCCW®

HKT - a PCCW Group member

CONTENTS

CORPORATE PROFILE

HKT is Hong Kong's premier telecommunications service provider. It meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centers.

Together with the highly successful media business of its parent company, PCCW Limited, HKT offers innovative media content and services across the PCCW Group's unique quadruple-play platforms – fixed-line, broadband Internet access, TV and mobile.

Employing approximately 15,500 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

SIGNIFICANT EVENTS IN 2012

FEBRUARY
HKT announces strong results for the year ended December 31, 2011 which exceed forecasts in the global offering prospectus.

MARCH
Wins a significant contract for network equipment and structured cabling at Hong Kong Exchanges and Clearing Limited's new data center.

APRIL
Introduce "Ultimate Mobility" service plans for smartphone and tablet users.

MAY
Awarded a major contract for the expansion of the Government Wi-Fi Program.

Launch of the 4G LTE mobile network.

JUNE
The number of our Wi-Fi hotspots exceeds 10,000. The number has grown to more than 12,000 in early 2013.

AUGUST
PCCW Global acquires a long-term customer arrangement with African mobile operator Vodacom, expanding its connectivity coverage in Europe and Africa.

HKT is commissioned to design and build a fully resilient backbone infrastructure and to provide network services for Hong Kong Interbank Clearing Limited's ICLNet.

HKT announces solid financial performance for the six months ended June 30, 2012.

SEPTEMBER
Revolutionize the tariff structure of mobile services in Hong Kong by offering customers unlimited voice calls to any Hong Kong phone number.

Wins major Transport Department contracts to provide communication networks and related equipment.

The first new PCCW-HKT Flagship Shop opens in Mongkok. A Central Signature Store opens in February 2013.

OCTOBER
Commencement of a campaign to promote HKT's service motto of "Here To Serve". The HKT Premier team is also introduced.

HKT launches Smart Living, a new home automation solutions service.

HKT education eLearning Solutions, Hong Kong's first integrated cloud-based education service for primary schools, is launched.

NOVEMBER
Becomes the first mobile operator to announce co-operation with a bank in Hong Kong to provide NFC-based mobile payment service.

DECEMBER
HKT provides free Wi-Fi service at a bus interchange, the first in Hong Kong.

AWARDS

Award	Awardee	Scheme Organizer
13th Annual Hong Kong Call Centre Association Awards		Hong Kong Call Centre Association
Off-shore Contact Centre of the Year – Bronze	PCCW Teleservices	
Best Contact Centre in Training and People Development – Bronze		
Best Contact Centre Quality Assurance Professional – Gold		
Best Inbound Contact Centre Team Leader (Southern China) – Gold		
Best Outbound Contact Centre Manager – Bronze		
Asia Pacific Top Ranking Performers Awards 2012		ContactCenterWorld
Best in Customer Service (Outsourced) – Gold	PCCW Teleservices	
Best Contact Center Operational Manager – Gold		
Best Quality Auditor – Gold		
Best Customer Service Professional – Gold		
Best Large-Sized Contact Center (Outsourced) – Silver		
Best Help Desk – Silver		
Best Contact Center Supervisor – Bronze		
AV Awards 2012		AV Magazine
The Best Mobile Broadband Operator	HKT	
The Best Broadband Service Provider	NETVIGATOR	
Best China Customer Contact Center & CRM Awards 2012		51CallCenter
Best China Customer Contact Center Technical Solutions Award	PCCW Teleservices	
Best China Customer Contact Center (Customer Service)		
Best of IT Awards		PC Market
My Favorite Home Broadband Service Award	NETVIGATOR	
My Favorite Mobile Service Provider Award	PCCW mobile	
Capacity Awards		Capacity Media
Best Global Wholesale Carrier Finalist 2012	PCCW Global	
CAPITAL Best of the Best for Executive 2012		CAPITAL
The Best Mobile Service	PCCW mobile	
Computerworld Hong Kong Award 2012		Computerworld Hong Kong
Best Data and Telecom Services Provider	HKT	
e-brand Awards 2012		e-Zone
Best Mobile Broadband Service	PCCW mobile	
Best Home Broadband Service	NETVIGATOR	
Excellent Services Brand Award 2012		Sing Tao Daily
Business Broadband Services	Business NETVIGATOR	

Award	Awardee	Scheme Organizer
Hong Kong Service Awards 2012		East Week
Prosperous Economy category – Long Distance Call	IDD 0060	
Prosperous Economy category – Internet service	NETVIGATOR	
6th Int'l ICT Awards		Canadian Chamber of Commerce of the Philippines & Business Process Association Philippines
Fastest Growing BPO Company of the Year (finalist)	PCCW Teleservices	
Quality Program of the Year (finalist)		
NEXT Magazine Top Service Awards		NEXT Magazine
Best Internet Service Provider	NETVIGATOR	
Outstanding Enterprise Awards		CAPITAL
Best Fixed-line Service Company	HKT	
2012 PCPD 3-minutes Speech Competition		Office of the Privacy Commissioner for Personal Data, Hong Kong (PCPD) & Hong Kong Communications Association (CAHK)
Great Humorous Award	One PCCW Shops staff member	
PRO Choice Award 2012		CAPITAL Weekly
Best Mobile Network Service Provider	PCCW mobile	
Quality Life Awards 2012		LIZA
Quality Telecommunication Provider	PCCW mobile	
Sing Tao Daily IT Square Editor's Choice 2012		Sing Tao Daily IT Square
Best Managed Security Services	HKT	
SMB World Award, 2012		SMB World
Best SMB Partner – Technology	HKT	
Best Corporate Mobile Services	PCCW mobile	
Best Business Broadband Services	Business NETVIGATOR	
Telecoms World Awards Middle East		Terrapinn
Best International Wholesale Carrier	PCCW Global	
The Best SME Partner 2012		Economic Digest
Internet Service Provider	Business NETVIGATOR	
ICT Service Provider	HKT	
TOUCH Brands 2012		East Touch
	NETVIGATOR	
	PCCW mobile	
Trusted Brands 2012		Reader's Digest
Phone Service (Fixed line or mobile) – Platinum Award	HKT	
Vibrant Star of Retail and Service Industry 2012		Job Finder
Vibrant Star Merit Award	One PCCW Shops staff member	
Yahoo! Emotive Brand Award 2011-2012		YAHOO! Hong Kong
Celebrity and spokesperson	NETVIGATOR – Moses Chan	
Mobile/Internet Service Category	PCCW mobile	

STATEMENT FROM THE CHAIRMAN

HKT's operations last year were characterized by exciting developments in both our existing and new business activities. I am pleased to report that these contributed to a solid financial performance for 2012.

While the Hong Kong economy experienced a slowdown in growth last year partly because of uncertainties and recessionary pressures looming over the U.S. and Europe, HKT's underlying strengths and resilience made it less vulnerable to the external economic conditions.

Already the leader in the Hong Kong fixed broadband market, we intensified efforts to connect our fiber network to more offices and homes, culminating in the formation of a dedicated team to serve customers in premium residential locations, which has brought in more customers with higher spending.

Mobile service continues to be an important growth driver for our business in Hong Kong. Following the 4G network launch and other service initiatives, our mobile service is now re-establishing itself as a leading player in the market.

During the year, we started a project to rejuvenate our retail shops to showcase our increasing range of products. Two new shops in prime shopping areas in Kowloon were unveiled last September exuding quality and style. This was followed by the opening of a Central Signature Store in February this year. This ongoing project has also made it possible to demonstrate in select new shops HKT's Smart Living home automation solutions for the modern homes of today.

Our global connectivity business has been boosted by the integration of the enhanced capabilities that we acquired last year. This will enable us to take full advantage of the growing opportunities beyond Hong Kong, for example, in Europe and Africa.

We take pride in the achievements of last year against a less-than-favorable economic environment locally and globally. We also note the solid rise in value of the HKT share stapled units in 2012. It is the objective of the Board and management to continue to build HKT's businesses and produce solid financial performance for unitholders.

Richard Li
Chairman
February 26, 2013

STATEMENT FROM THE GROUP MANAGING DIRECTOR

In the first full year of operation after its stock exchange listing in November 2011, HKT embarked on plans to aggressively build its key business segments and to innovate. We succeeded in strengthening our position in markets where we are already the leader, and introduced new businesses which have increased the breadth and depth of services HKT provides to both consumers and enterprises.

The results for the year ended December 31, 2012 once again exceeded the financial targets set out in the HKT listing prospectus. They reflected HKT's determination to maintain our status as the premier telecommunications service provider in Hong Kong and our dedication to delivering value to our unitholders locally and internationally.

HKT has lived up to its motto of being "Here To Serve"; and we have served beyond merely providing connectivity, as can be seen in the following review of operations.

PREMIER FIBER CONNECTIONS

HKT operates the largest fiber network in Hong Kong providing super-fast fixed broadband service to customers. We have continued to build more fibers, now reaching more than 72% of homes – meaning fiber-to-the-home (FTTH) service can be made available to these premises within four days of receiving an order.

We saw continued growth in demand for higher-speed service among mass consumers as well as customers who live in more exclusive or premium areas. The number of NETVIGATOR customers enjoying FTTH service doubled in 2012 when compared with a year ago.

To capture the higher-end customers, last year we set up a HKT Premier team of relationship specialists and customer support and service staff to serve their most exacting requirements – not only of broadband service, but also other quadruple-play offerings of the PCCW-HKT group.

The HKT Premier team is tasked to accommodate service requests from customers who expect only the highest service standards. This segmentation is common in many successful corporations in various industries such as airline and banking. The average spending of these customers is higher and we can also recover part of the infrastructure and service provisioning costs.

While service upgrades, premier customer in-take, and general price adjustments have combined to create a positive impact on operational results, we note that the Hong Kong broadband market remains highly competitive. We will monitor the market closely in 2013 and map out our service and pricing strategies accordingly.

MOBILE SERVICE A GROWTH DRIVER

At the beginning of the year, we identified the mobile service as being primed for a push, following our investment in our fiber-backed network and modernization of base stations over the past years after HKT's re-entry to the mobile market.

Since the 4G LTE network was launched in the first half, new customer in-take and existing customer upgrades have been encouraging. HKT's 4G network provides comprehensive coverage of the main business areas and key residential areas, and is being actively and extensively expanded to other high population areas. We have also been re-farming the 1800 MHz radio spectrum previously used for 2G communications to boost 4G coverage both indoors and outdoors, and this is expected to be completed in the middle of this year.

In early 2013, we completed our 4G LTE mobile coverage along major MTR lines, including the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort lines, and the Airport Express Line. The MTR coverage is supported by 1000Mbps optical fibers, enabling commuters to enjoy ultra-fast 4G services. Discussions are ongoing to extend coverage to the East Rail Line, West Rail Line and Ma On Shan Line.

We executed a series of business development plans and campaigns to raise consumer awareness of the prowess of our mobile service. To offer an ultimate mobile experience, HKT introduced a range of "Ultimate Mobility" service plans last year. The plans have pre-set multi-gigabyte data usage caps, while customers may choose to top up should there be need. We also introduced to the market numerous smartphone models boasting the latest technical specifications, including several exclusive arrangements with handset manufacturers, making HKT the pre-eminent mobile operator in offering 4G smartphones.

Following our pioneering decision to scrap unlimited data plans in 2011, we led the industry again by enabling customers in Hong Kong or abroad to make unlimited voice calls to any Hong Kong phone number. A new VoIP app was made available to enable customers to make unlimited overseas calls back home while traveling abroad or to receive calls from around the world.

In addition to revolutionizing the tariff structure of mobile services in Hong Kong in this new era of data communication, we continuously roll out new service features to enrich customer experience and bring in additional revenue. In the last quarter of 2012, we introduced a device to safely and swiftly transfer phonebook and other data from one handset to another as a free service to customers. Early this year, we launched a security service package; at a small monthly charge, the service protects mobile devices from data leakage, virus attacks and nuisance calls, safeguarding customers' personal data and privacy on their smartphones.

LEADING WI-FI PROVIDER

Customers of specified mobile plans have unlimited access to Wi-Fi hotspots operated by HKT all over Hong Kong. Wi-Fi offload makes more efficient use of radio spectrum resources and the seamless transition enhances customer experience. In the first half of 2012, the number of our Wi-Fi hotspots exceeded 10,000. The number has quickly grown to more than 12,000. We will continue to build more hotspots affording faster connectivity to ensure HKT remains the leading Wi-Fi provider in Hong Kong.

During the year, we opened up for a trial period our Wi-Fi network for smartphone and tablet users to experience the benefits of unlimited Wi-Fi. In December, HKT launched Hong Kong's first free Wi-Fi service at a bus interchange. The free service at Tuen Mun Road Bus Interchange enables commuters to enjoy high-speed connectivity while waiting for buses. This will be gradually extended to other places to serve more passengers this year.

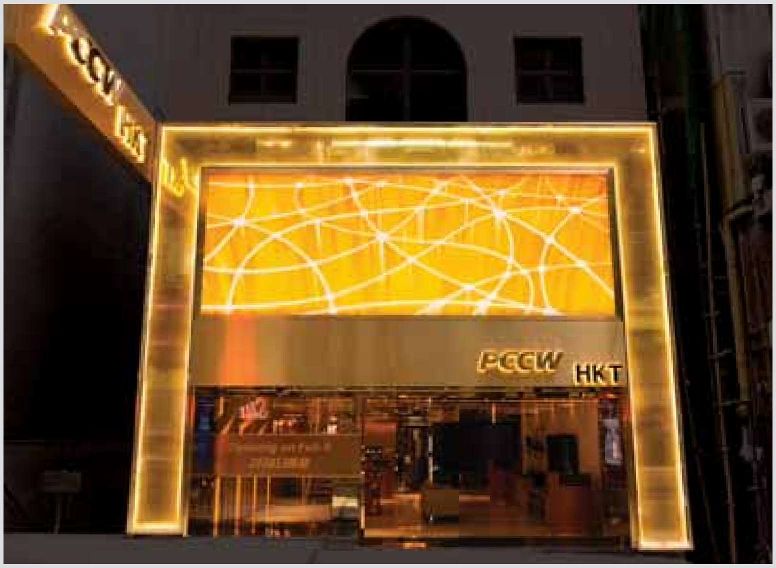
In November, we became the first mobile operator to announce co-operation with a bank in Hong Kong to provide mobile payment services using Near Field Communication (NFC) technology. The partnership with Hang Seng Bank will adopt a leading security standard, providing a fast, simple and secure means for users to experience contactless services with a mobile phone. A user can simply wave the mobile phone over an NFC reader at a retail outlet to effect payment by credit card. The service is expected to be launched later this year. In addition to payment, there are immense possibilities for NFC applications. For instance, consumers can turn a mobile phone into an electronic wallet and use NFC for e-ticketing. We intend to launch other NFC mobile services progressively in the future.

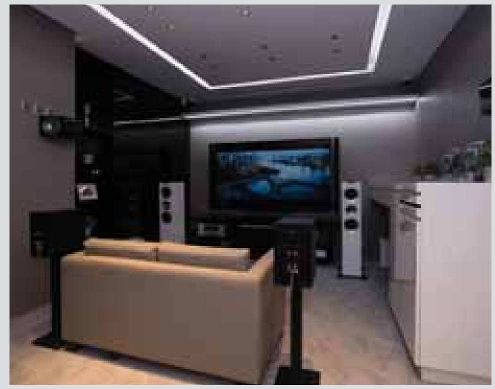
A SMARTER RETAIL PRESENCE

Another major undertaking last year was the modernization of HKT's retail channels.

HKT currently operates more than 50 retail outlets across the city to provide convenient one-stop shopping for broadband, mobile, and eye services, as well as now TV service offered by parent group PCCW's media business unit. In addition, call centers and the HKT Premier team also form part of our sales channels. As we have strengthened our product lines and developed new services, we decided to rejuvenate our shop presence to enhance HKT's ability to build on our leadership position.

September 2012 witnessed the opening of the first new PCCW-HKT Flagship Shop in Mongkok. An elegant and strategically located Central Signature Store opened its doors to the public in February 2013. Meanwhile, we have been renovating existing outlets or relocated shops in other parts of Hong Kong (see photos overleaf).





HKT currently operates more than 50 retail outlets across the city to provide convenient one-stop shopping for a variety of services. We are rejuvenating our shops to enhance HKT's ability to build on our leadership position.

Clockwise from top left corner: Central Signature Store; Smart Living AV demo room in Central store; Smart Living show flat in Central; Mongkok Flagship Shop; Tin Shui Wai Shop; Main entrance area in Central; and Tsim Sha Tsui Shop.

The design philosophy of the new shops is to put up-to-date product and service information at the finger-tips of customers in a high-class, high-quality and paperless environment, while making customers feel at home. Shop staff are attired in new uniforms made of eco-friendly recycled materials and designed by an acclaimed local fashion designer.

In addition to the facelift, HKT launched the Smart Living home automation service as a main feature of the new PCCW-HKT shops. Smart Living allows one-touch control of multiple home settings such as lighting, curtains, air-conditioning, home entertainment and home surveillance systems. This can be done through a customized remote control, or via a smartphone or a tablet when customers are not at home. Our consultants will provide on-site professional advice on layout and equipment setting and one-stop set-up service.

The eye device of HKT can also be used as a control panel for Smart Living, as well as a health data upload device for the eSmartHealth service. Last year, there was a notable increase in customers' adoption of eye, which contributed to HKT's stable and strong fixed-line business performance.

EDUCATION FOR FUTURE GENERATIONS

Smart Living is an example of how HKT has leveraged its capability in network and technology to develop diversified business activities. Last October, HKT launched Hong Kong's first integrated cloud-based education service for primary schools. Making both learning and teaching more effective and interactive, the HKT education eLearning Solutions platform is underpinned by fiber-to-the-school broadband and Wi-Fi networks.

Education publishers may upload textbooks and related multimedia materials to a cloud platform, while teachers can easily download the content on a tablet with Wi-Fi, and the same content will be synchronized with the tablets of students in the class. As a result, classroom management and the teaching process will become more efficient and effective, and students will find studying more interesting and engaging.

HKT education eLearning Solutions is a true e-learning platform combining the best education content, the most reliable infrastructure, and the most advanced learning solutions and devices that are available in Hong Kong.

SUCCESS IN COMMERCIAL AND PUBLIC ARENA

Telecom services to the business and public sector recorded a strong year, with continued net gains in voice and broadband lines. Local data wholesale business performed well because of broadband line upgrades and increased demand for fiber links.

Meanwhile, more mission-critical projects were inscribed in the commercial team's track record. In September, HKT won contracts to provide communication networks and related equipment for the Transport Department. The networks support video and data transmission of on-street traffic signal control and closed circuit television (CCTV) systems managed by the department.

While the Transport Department project helps ensure road safety and efficient traffic flow, another win demonstrates HKT's strength in supporting Hong Kong as an international financial center. In August, HKT was commissioned to design and build a fully resilient backbone infrastructure and to provide network services for Hong Kong Interbank Clearing Limited's (HKICL) ICLNet. The new ICLNet features full resilience, the highest reliability and superb scalability. These infrastructure and bandwidth enhancements leapfrog the new ICLNet's capabilities to include industry-wide implementation of electronic transmission of cheque images. The new network also delivers unparalleled performance for electronic data exchange among 150 financial institutions in Hong Kong, allowing online commercial credit assessment of small- and medium-sized enterprises (SMEs) and electronic exchange of interbank clearing and settlement files.

Earlier last year, HKT was awarded a major contract on the expansion of the Government Wi-Fi Program, involving more than 2,300 access points, and another significant contract for the supply, implementation and maintenance of network equipment and structured cabling at Hong Kong Exchanges and Clearing Limited's new data center.

For the SMEs, the new HKT Cloud Office service packs in advance email management, synchronization of contact lists and calendars and sharing of email attachments via smartphones and tablets – as well as an enormous storage and automatic system backup – all within a cloud-based environment. Sales have been picking up since introduction at the end of the year.

OPENING GLOBAL CORRIDORS

International connectivity business undertaken by PCCW Global performed well with increases in both data and voice revenues due to the growing demand of carrier customers and enterprises.

As reported in the Interim Report 2012, PCCW Global secured a long-term customer arrangement with African mobile operator Vodacom. As part of the agreement, PCCW Global acquired certain assets associated with Vodacom's international activity at the end of August 2012.

The new business has subsequently been smoothly integrated into a single functional unit with a common global platform. The transaction has not only secured an important customer, but also significantly expanded PCCW Global's coverage into Europe as well as the fast developing African market, where the business is now well connected utilizing an array of submarine, satellite, and terrestrial connectivity options.

Specialist knowledge of the African marketplace ideally positions PCCW Global to service the rapidly expanding trade corridor between Asia and Africa, and to meet the needs of enterprises, mobile operators, and global services providers wishing to expand their field of operation into and from Africa.

Throughout the year, PCCW Global also signed cooperative partnerships and interconnection agreements with a number of operators to strengthen its points of presence and service portfolio. Today, its infrastructure covers 1,800 cities across 120 countries.

PCCW Global will work towards further upgrading its global network capacity to support the delivery of high-performance data networking services and traffic growth driven by high-definition video and connectivity applications such as cloud computing.

A STRONG MOMENTUM

It is evident that the hard work of the HKT team last year has ignited a strong momentum for the company to continue to grow in 2013. As we continue to benefit from the steady and solid performance of our long-established businesses, we also expect the new business initiatives to flourish and make more significant contributions in the coming year. The broadband and mobile businesses shall continue to be the main growth drivers, while the global connectivity business has considerable development potential.

Competition is likely to remain keen, although we are confident that our first-class network and innovative products continue to provide a competitive edge. Furthermore, our professional and friendly customer service staff and investment in customer service web portal, apps and other channels will further differentiate HKT from the other operators in the market.

The general economic conditions will also likely remain challenging in the foreseeable future in the absence of a breakthrough of the economic doldrums in the U.S. and Europe. Management will cautiously examine any opportunities and threats with a view to further developing our businesses and maximizing return for unitholders.

Alex Arena
Group Managing Director
February 26, 2013

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Executive Chairman
Mr Li, aged 46, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

Alexander Anthony ARENA
Group Managing Director
Mr Arena, aged 61, has been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee. Mr Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr Arena was an Executive Director of PCCW Limited (PCCW) from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee prior to November 2011.

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

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

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

HUI Hon Hing, Susanna
Group Chief Financial Officer
Ms Hui, aged 48, has been the Group Chief Financial Officer of HKT Limited (HKT) and an Executive Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is also a member of HKT's Executive Committee. Ms Hui is primarily responsible for overseeing the financial matters of the Group. Ms Hui is and has been the Group Chief Financial Officer of PCCW Limited (PCCW) since April 2007 and an Executive Director of PCCW since May 2010. She is also a member of PCCW's Executive Committee and Regulatory Compliance Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was the Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN

Non-Executive Director

Mr Allen, aged 57, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is an Executive Director and the Group Managing Director of Pacific Century Regional Developments Limited, an Executive Director and the Chief Financial Officer of the Pacific Century Group and Senior Advisor to PCCW Limited (PCCW). Mr Allen was an Executive Director of PCCW from August 1999 to November 2011.

Prior to joining the Pacific Century Group, Mr Allen joined KPMG in 1976 before taking up an appointment at Occidental International Oil Incorporated in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr Allen joined Boustead Singapore Limited as the Group Operations Controller in 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a Director and Chief Operating Officer in 1995. He joined the Pacific Century Group in 1997.

Mr Allen was educated in England and graduated from the University of Sussex with a degree in economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow Member of CPA Australia and a Fellow of the Institute of Certified Public Accountants of Singapore.

CHUNG Cho Yee, Mico

Non-Executive Director

Mr Chung, aged 52, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

Mr Chung graduated from University College, University of London in the United Kingdom, with a law degree in 1983.

Mr Chung is currently the Chairman and an Executive Director of CSI Properties Limited which he joined in 2004. He is also an Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited between March 9, 2001 and May 31, 2008.

LU Yimin

Non-Executive Director

Mr Lu, aged 49, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee of the Board. Mr Lu became a Non-Executive Director of PCCW Limited (PCCW) in May 2008 and the Deputy Chairman of the board of directors of PCCW in November 2011. He is a member of PCCW's Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a researcher level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

LI Fushen

Non-Executive Director

Mr Li, aged 50, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Regulatory Compliance Committee. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007. He is a member of the Nomination Committee of the board of directors of PCCW.

For identification only

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as a Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang, FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 72, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also a member of HKT's Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

Professor Chang became an Honorary Professor of Tsinghua University in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was the Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and the Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Lègion d'Honneur as well as Commandeur dans l'Ordre des Palmes Acadèmiques of France. He was appointed Justice of the Peace in July 1999 and awarded the Gold Bauhinia Star by the Hong Kong Government in July 2002.

Professor Chang obtained his bachelor's degree in civil engineering from the National Taiwan University, a master's degree in structural engineering from Stanford University in the United States and a doctorate in biomedical engineering from Northwestern University in the United States.

Professor Chang is also an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Limited.

Sir Rogerio (Roger) Hyndman LOBO, CBE, LLD, JP

Independent Non-Executive Director

Sir Roger, aged 89, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of both HKT's Regulatory Compliance Committee and Nomination Committee, a member of HKT's Audit Committee and Remuneration Committee, and a member of the Trustee-Manager's Audit Committee. Sir Roger was an Independent Non-Executive Director of PCCW Limited from August 1999 to November 2011.

Sir Roger is also a Director of several organizations, including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd., Kjeldsen & Co. (HK) Ltd., Pictet (Asia) Limited and Melco International Development Limited.

For identification only

Sir Roger's extensive record of public service includes membership of the Hong Kong Housing Authority, the Urban Council, the Executive Council and serving as a senior member of the Legislative Council. Sir Roger served as Commissioner of the Civil Aid Service, Chairman of the Hong Kong Broadcasting Authority, Chairman of the Advisory Committee on Post-retirement Employment and also served as Advisory Committee Chairman, Complaints Committee Member and Corruption Prevention Advisory Committee Member of Independent Commission Against Corruption.

Sir Roger currently serves as Chairman (Board of Trustees) of the Vision 2047 Foundation, Vice Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong, Advisory Board Member of the Hong Kong Aids Foundation, Member of the Board of Trustees of Business and Professionals Federation of Hong Kong, and Council Member of Caritas Hong Kong.

Sir Roger has received several awards and honors from the British Crown and the Vatican.

The Hon Raymond George Hardenbergh SEITZ

Independent Non-Executive Director

Mr Seitz, aged 72, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Remuneration Committee and a member of HKT's Audit Committee and the Trustee-Manager's Audit Committee. Mr Seitz was an Independent Non-Executive Director of PCCW Limited (PCCW) from February 2005 to November 2011. He was a Non-Executive Director of PCCW from October 2000 and was re-designated as an Independent Non-Executive Director in February 2005.

Mr Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador to Great Britain from 1991 to 1994. Prior to that, Mr Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989. He was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 69, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee.

Mr Varma is a certified chartered accountant as well as a cost and management accountant. He has extensive working experience of over 40 years including with Price Waterhouse Management Consultants and the IBM Consulting Group, specializing in management and business-problem consulting. He was the partner responsible for establishing and developing the Price Waterhouse consulting practice in Indonesia and was the Head of the Price Waterhouse consulting practice in Hong Kong until 1994. Mr Varma was the Vice President and Principal responsible for the IBM Consulting Group in India between 1996 and 1998. He was the Interim Chief Financial Officer and Managing Director of Asia Online, Ltd. from 1999 to 2000 and was the Interim Chief Financial Officer of HCL – Perot Systems in India in 2003.

Mr Varma had previously worked in a number of countries in Africa and the Asia Pacific region including Australia, India, Indonesia, Hong Kong, Thailand and the PRC. He advised large multinationals as well as domestic companies in the areas of corporate governance, financial management, organizational strengthening, efficiency improvement, process re-engineering and business systems. He is experienced in a cross-section of industries including financial services, information technology, energy, fertilizers and steel. He had previously conducted several large assignments for public sector organizations, funded by World Bank, Asian Development Bank and other multi-lateral funding agencies.

Mr Varma is also a Director and the Chairman of Audit Committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd. and Shriram City Union Finance Ltd. Mr Varma was a Director and a member of the Audit Committee of Shriram EPC Ltd. and a Director and the Chairman of the Audit Committee of Vistaar Livelihood Finance Pvt. Ltd. in India.

Mr Varma obtained his Bachelor of Arts degree in mathematics and economics from Punjab University in July 1962. He has been an Associate member of the Institute of Chartered Accountants of India since August 1966 and a Fellow since June 1972, and an associate member of the Institute of Cost and Management Accountants of India since September 1975.

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2012.

The HKT Trust is a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by the Trustee-Manager. The HKT Trust, the Trustee-Manager and the Company are committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, of the Company and its subsidiaries (collectively the "HKT Limited Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct the HKT Limited Group's business in the following areas: civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which the HKT Limited Group should conduct its business to enhance its positive contribution to society and the environment.

CORPORATE STRATEGY

The Company, in conjunction with its listed parent PCCW Limited ("PCCW"), offers Hong Kong's only integrated quadruple-play service with market leading positions in the fixed-line, broadband Internet and pay-TV businesses, as well as a rapidly growing mobile business. The Company's strategy for generating and preserving unitholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that the Company provides to its customers. The Company generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications and ancillary businesses.

CORPORATE GOVERNANCE PRACTICES

The HKT Trust and the Company are both listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are both subject to the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The HKT Trust is not a separate legal entity, and can only act through the Trustee-Manager.

Pursuant to the Deed of Trust constituting the HKT Trust dated November 7, 2011 (the "Trust Deed"), (i) the Trustee-Manager shall be responsible for compliance by the HKT Trust with the Listing Rules applicable to the HKT Trust and other relevant rules and regulations; (ii) the Company shall be responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant rules and regulations; and (iii) each of the Trustee-Manager and the Company must co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The HKT Trust and the Company have adopted the code provisions of the Code on Corporate Governance Practices (the "Former CG Code") (now known as the Corporate Governance Code (the "CG Code")) as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles and complied with all relevant code provisions of the Former CG Code during the period from January 1 to March 31, 2012 and the CG Code during the period from April 1 to December 31, 2012, except that the Chairman of the Remuneration Committee of the Company was unable to attend the combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company (the "Combined Annual General Meeting") held on May 3, 2012 (which was required under Code Provision A.6.7) as he had another engagement overseas. The requirement to establish a separate Remuneration Committee for the Trustee-Manager under the Code Provision B.1.1 of the Former CG Code for the period from January 1 to March 31, 2012 and Listing Rule 3.25 for the period from April 1 to December 31, 2012 is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by Code Provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The HKT Trust and the Company have adopted the standard required by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules and established a code of conduct regarding securities transactions by directors, senior management and relevant employees as defined in the CG Code, namely the HKT Trust and HKT Limited Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the "HKT Code"), in terms no less exacting than the required standard indicated by the Model Code.

Having made specific inquiries of all directors of the Trustee-Manager and the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the HKT Code during the accounting period covered by this annual report.

The interests and short positions of the directors and the chief executives of the Company and the Trustee-Manager in the share stapled units (the "Share Stapled Units") and underlying Share Stapled Units jointly issued by the HKT Trust and the Company; and the shares, underlying shares and debentures of the Company and its associated corporations have been disclosed in the Combined Report of the Directors on pages 38 to 60 of this annual report.

BOARDS OF DIRECTORS

Pursuant to the Trust Deed, the directors of the Trustee-Manager shall at all times comprise the same individuals who serve as directors of the Company; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and no person shall serve as a director of the Company unless he also serves as a director of the Trustee-Manager at the same time.

The Company Board is responsible for the management of the Company. Key responsibilities include formulation of the overall strategies of the HKT Limited Group, the setting of management targets and supervision of management performance. The Company Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Company's Executive Committee under the leadership of the Company's Executive Chairman:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time) for which Company Board approval must be sought from time to time;
- those functions and matters for which Company Board approval must be sought in accordance with the HKT Limited Group's internal policy (as amended from time to time);
- consideration and approval of the HKT Limited Group's financial statements in the interim and annual reports of the Company and the HKT Trust, and announcements of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring of the corporate governance of the HKT Limited Group in order to comply with applicable rules and regulations.

The Trustee-Manager Board is responsible for the administration of the HKT Trust (including but not limited to the safe custody of all the property and rights of any kind whatsoever which are held on trust for the registered holders of Share Stapled Units (the "Trust Property")). Key responsibilities include taking all reasonable steps to ensure that the Trustee-Manager discharges its duties under the Trust Deed, ensuring that the Trust Property is properly accounted for, and being answerable to the registered holders of units of the HKT Trust for the application or misapplication of any Trust Property. The Trustee-Manager Board confines itself to making broad policy decisions and exercising a number of reserved powers as below:

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;
- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports of the HKT Trust, and announcements of interim and annual results;
- consideration of distributions to registered holders of Share Stapled Units; and
- monitoring of the corporate governance of the HKT Trust in order to comply with applicable rules and regulations.

The Executive Chairman of the Company is Li Tzar Kai, Richard and the Group Managing Director of the Company is Alexander Anthony Arena. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for overseeing the function of the Company Board while the Group Managing Director is responsible for managing the business of the Company. Details of the composition of the Company Board and the Trustee-Manager Board are set out in the Combined Report of the Directors on pages 38 to 60 of this annual report.

BOARDS OF DIRECTORS *(CONTINUED)*

All directors of the Company and the Trustee-Manager have full and timely access to all relevant information, including monthly updates from the management, regular reports from the various Company Board committees and Trustee-Manager Board committee(s) and briefings on significant legal, regulatory or accounting issues affecting the HKT Limited Group and the HKT Trust respectively. Directors may take independent professional advice, which will be paid for by the Company or the Trustee-Manager, as appropriate.

The directors of the Company and the Trustee-Manager acknowledge their responsibility for preparing the financial statements of, respectively, the Company and the HKT Trust and the Trustee-Manager for each financial year, which give a true and fair view of the state of affairs of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), and of the profit and cash flows of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2012, the directors of the Company and the Trustee-Manager have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The directors of the Company and the Trustee-Manager are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of, respectively, the HKT Limited Group and the HKT Trust and the Trustee-Manager. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Limited Group and the HKT Trust, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 61 to 62 and 150 of this annual report.

As at the date of this report, each of the Company Board and the Trustee-Manager Board is comprised of 11 directors including three executive directors, four non-executive directors and four independent non-executive directors. At least one-third of the Company Board and the Trustee-Manager Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors of the Company and the Trustee-Manager are set out on pages 11 to 14 of this annual report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Company Board and the Trustee-Manager Board have also been disclosed in the Combined Report of the Directors of this annual report.

The Company and the Trustee-Manager have arranged appropriate directors and officers liability insurance cover for their directors and officers.

Biographies of senior corporate executives and heads of business units of the HKT Limited Group as at the date of this report are available on the Company's website (www.hkt.com).

The Company Board and the Trustee-Manager Board each held four meetings in 2012. The Combined Annual General Meeting was held on May 3, 2012 with the attendance of the external auditor to answer questions.

BOARDS OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Company Board and the Company Board committee meetings, the Trustee-Manager Board and the Trustee-Manager Board committee meetings, and the Combined Annual General Meeting held in 2012 is set out in the following table:

	Meetings attended/eligible to attend in 2012 *(Note 1)*						
	Company				Trustee-Manager		Combined Annual General Meeting
	Board	Audit Committee *(Note 2)*	Nomination Committee *(Note 2)*	Remuneration Committee *(Note 2)*	Board	Audit Committee *(Note 3)*	
Executive Directors							
Li Tzar Kai, Richard *(Executive Chairman)*	4/4	N/A	1/1	N/A	4/4	N/A	1/1
Alexander Anthony Arena *(Group Managing Director)*	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Non-Executive Directors							
Peter Anthony Allen	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Chung Cho Yee, Mico	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Lu Yimin	3/4 *(Note 4)*	N/A	0/1 *(Note 4)*	2/4 *(Note 5)*	3/4 *(Note 4)*	N/A	1/1
Li Fushen	3/4 *(Note 6)*	N/A	N/A	N/A	3/4 *(Note 6)*	N/A	1/1
Independent Non-Executive Directors							
Professor Chang Hsin Kang	4/4	3/3	1/1	4/4	4/4	3/3	1/1
Sir Rogerio (Roger) Hyndman Lobo *(Chairman of the Company's Nomination Committee)*	4/4	3/3	1/1	4/4	4/4	3/3	1/1
The Hon Raymond George Hardenbergh Seitz *(Chairman of the Company's Remuneration Committee)*	3/4	3/3	N/A	4/4	3/4	3/3	0/1
Sunil Varma *(Chairman of the Audit Committee of the Company and the Trustee-Manager)*	4/4	3/3	1/1	N/A	4/4	3/3	1/1

Notes:

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association (the "Trustee-Manager Articles").

2. For the composition of and the number of meetings held in 2012 by the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.

3. For the composition of and the number of meetings held in 2012 by the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.

4. Attendance at one meeting was by an alternate director of Lu Yimin appointed in accordance with the Company Articles and the Trustee-Manager Articles (as the case may be) which was not counted as attendance by the director himself in accordance with the requirements by the CG Code.

5. Lu Yimin did not attend one meeting as he had an overseas business engagement and another meeting was attended by his alternate director appointed in accordance with the Company Articles which was not counted as attendance by the director himself in accordance with the requirements by the CG Code.

6. Attendance at one meeting was by an alternate director of Li Fushen appointed in accordance with the Company Articles and the Trustee-Manager Articles (as the case may be) which was not counted as attendance by the director himself in accordance with the requirements by the CG Code.

BOARDS OF DIRECTORS *(CONTINUED)*

The Company and the HKT Trust together have received from each of their independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive directors as at the date of this report, namely, Professor Chang Hsin Kang, Sir Rogerio (Roger) Hyndman Lobo, The Hon Raymond George Hardenbergh Seitz and Sunil Varma are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

According to the Company Articles and the Trust Deed, any director so appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed as a director of the Trustee-Manager. Any director of the Company and the Trustee-Manager appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the HKT Trust, as the case may be, and shall be eligible for re-election at that meeting. In the case as an addition, the additional director of the Company and the Trustee-Manager shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the HKT Trust, as the case may be, and shall be eligible for re-election at that meeting.

In addition, according to the Company Articles, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company Articles, each non-executive director has a term of three years. Under the Trust Deed, the directors of the Trustee-Manager must be the same individuals who serve as directors of the Company at the relevant time; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and the office of a director of the Trustee-Manager shall be vacated if the relevant person ceases to be a director of the Company. These provisions are also contained in the Trustee-Manager Articles. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board. Therefore, no director of either the Company or the Trustee-Manager will remain in office for a term of more than three years. Details of the directors who shall retire from office of both the Company and the Trustee-Manager at the forthcoming Combined Annual General Meeting are set out in the Combined Report of the Directors on pages 38 to 60 of this annual report.

The Company Board and the Trustee-Manager Board have introduced a structured process to evaluate the performance of all directors on an annual basis including a self-evaluation questionnaire which is completed by all directors and presented to the respective Audit Committee and board meetings for discussion in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. This process has confirmed that the performance of the directors and the time commitment in discharging their duties as directors of the Company and the Trustee-Manager for the year ended December 31, 2012 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

As part of an ongoing process of director's training, the directors of the Company and the Trustee-Manager are updated on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements. They are provided with written materials from time to time to develop and refresh their knowledge and skills. The company secretary also organizes and arranges seminars on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company and the Trustee-Manager, namely, Li Tzar Kai, Richard, Alexander Anthony Arena, Hui Hon Hing, Susanna, Peter Anthony Allen, Chung Cho Yee, Mico, Lu Yimin, Li Fushen, Professor Chang Hsin Kang, Sir Rogerio (Roger) Hyndman Lobo, The Hon Raymond George Hardenbergh Seitz and Sunil Varma, received regular updates on the Company's business and written materials describing changes to the Listing Rules and other relevant rules and regulations. Additionally, the company secretary also organized training seminars presented by qualified professionals on legal and regulatory requirements for the directors. The Company and the Trustee-Manager together have received confirmation from all directors of their respective training records for the year ended December 31, 2012.

COMMITTEES OF THE COMPANY BOARD

The Company Board has established the following committees with defined terms of reference. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Audit Committee has been structured to only include independent non-executive directors, and the Nomination Committee, the Regulatory Compliance Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Executive Committee and Sub-committees

The Executive Committee of the Company Board operates as a general management committee with overall delegated authority from the Company Board. The Executive Committee determines HKT Limited Group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Executive Chairman to the Company Board.

The Executive Committee comprises four members, including three executive directors and one non-executive director.

The members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena
Hui Hon Hing, Susanna
Lu Yimin

Reporting to the Executive Committee are sub-committees comprising executive and non-executive directors and members of senior management who oversee all key operating and functional areas within the HKT Limited Group. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The *Finance and Management Committee* was established with effect from the date of listing of the Share Stapled Units on November 29, 2011 (the "Listing Date"). This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the HKT Limited Group and to set overall financial objectives and policies.

The *Operational Committee* was established with effect from the Listing Date. This committee is chaired by the Group Managing Director and meets on a regular basis to direct all of the business units/operations within the HKT Limited Group.

The *Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of the Company's and the HKT Trust's annual and interim reports and the corporate policies of the HKT Limited Group from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules.

The *Corporate Social Responsibility Committee* (which was previously known as the "Social Responsibility Committee"), which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Communications, Group Human Resources, Corporate Secretariat, Group Finance, Risk Management, Network Operations and Group Purchasing and Supplies departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment.

The *PRC Business Development Committee* was established with effect from the Listing Date to advise on possible opportunities for expanding the HKT Limited Group's operations in the PRC and monitoring the use of funds allocated and approved by the Company Board or relevant committee for PRC opportunities.

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary objective of the Remuneration Committee is to ensure that the Company is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company for the benefit of the registered holders of Share Stapled Units.

The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and other members of the HKT Limited Group and determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Company Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the HKT Trust and the Company's Share Stapled Units option schemes, as well as other Share Stapled Units incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website at www.hkt.com and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk. This committee comprises four members, including three independent non-executive directors and one non-executive director, and is chaired by an independent non-executive director.

The members of the Remuneration Committee are:
The Hon Raymond George Hardenbergh Seitz *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
Lu Yimin

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Remuneration Committee *(continued)*

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Company Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

The Remuneration Committee met four times in 2012. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2012:

(i) review of the terms of reference of the Remuneration Committee and recommendation to the Company Board for approval the proposed amendments;

(ii) review and approval of the 2011 bonus payment to executive directors and key management personnel;

(iii) review and recommendation of the non-executive directors' fees for 2012 to the Company Board for approval;

(iv) review and approval of the 2012 performance bonus scheme for executive directors and senior management;

(v) review and approval of share awards made pursuant to the Company's Share Stapled Units award scheme; and

(vi) review and approval of short term and long term incentive plan for staff.

Emoluments of directors of the Company for 2012 have been reviewed by the Remuneration Committee at its meeting held on February 26, 2013.

Details of emoluments of each director are set out in the consolidated financial statements of the HKT Trust and the Company on pages 97 to 99 of this annual report.

Nomination Committee

The Company Board established the Nomination Committee with effect from the Listing Date. The primary duties of the Nomination Committee are to make recommendations to the Company Board on the appointment and re-appointment of directors, structure, size and composition of the Company Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Company Board. On February 26, 2013, the Company Board revised the terms of reference of the Nomination Committee to include in its primary duties an objective to maintain a balance of skills, experience and diversity of perspectives on the Company Board which are appropriate to the requirements of the Company's business. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Company Board. The committee reviews the structure, size and composition of the Company Board, identifies suitably qualified candidates to become Company Board members and select or make recommendations to the Company Board on the selection of candidates nominated for directorships and succession planning for directors. During this process, the committee considers candidates based on merit and with due regard to the benefits of diversity on the Company Board.

The Nomination Committee comprises five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

The members of the Nomination Committee are:
Sir Rogerio (Roger) Hyndman Lobo *(Chairman)*
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Lu Yimin
Sunil Varma

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee met once in 2012. The attendance of individual directors at the committee meeting is set out on page 18 of this annual report.

The following is a summary of work performed by the Nomination Committee during 2012:

(i) review of the terms of reference of the Nomination Committee and recommendation to the Company Board for approval the proposed amendments;

(ii) review and assessment of the independence of all independent non-executive directors of the Company; and

(iii) consideration and recommendation to the Company Board for approval the re-election of all directors of the Company and the Trustee-Manager at the Combined Annual General Meeting held on May 3, 2012.

At its meeting held on February 26, 2013, the Nomination Committee reviewed the structure, size and composition of the Company Board and formed the view that the Company Board has a balance of skills, knowledge and experience appropriate to the business requirements of the Company for the year ended December 31, 2012, with a recommendation to the Company Board for approval.

Audit Committee

The Company Board established the Audit Committee with effect from the Listing Date. The Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Limited Group, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the HKT Limited Group's results to the registered holders of Share Stapled Units. The Audit Committee is also responsible for ensuring an effective system of internal controls of the HKT Limited Group is in place. On February 27, 2012, the Company Board revised the terms of reference of the Audit Committee to cover corporate governance functions. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the external auditors' independence, procedures have been adopted by the Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

At the Audit Committee meeting held on February 26, 2013, the Audit Committee recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2013 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

The Audit Committee comprises four members, each of them is an independent non-executive director.

The members of the Audit Committee are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
The Hon Raymond George Hardenbergh Seitz

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2012, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

The following is a summary of work performed by the Audit Committee during 2012:

(i) review of the terms of reference of the Audit Committee and recommendation to the Company Board for approval the proposed amendments;

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2011, with a recommendation to the Company Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its audit strategy memorandum, its report for the Audit Committee and the management representation letter for the year ended December 31, 2011, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2012 Combined Annual General Meeting;

(iv) review of the whistleblower program and adoption of a whistleblower policy;

(v) review of the annual report on effectiveness of internal controls under the Former CG Code, with a recommendation to the Company Board for approval;

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

(vi) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2011;

(vii) consideration and approval of the Group Internal Audit reports and internal audit workplan;

(viii) review of the interim report and the interim results announcement for the six months ended June 30, 2012, with a recommendation to the Company Board for approval;

(ix) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the six months ended June 30, 2012;

(x) review and approval of the audit strategy memorandum for the year ending December 31, 2012;

(xi) review and approval of PricewaterhouseCoopers' pre-year end report for the Audit Committee and the audit engagement letters for the year ending December 31, 2012;

(xii) consideration and approval of 2012 audit and non-audit services and approval of the 2013 annual budget for audit and non-audit services;

(xiii) review of the corporate governance report for the year ended December 31, 2011 and the corporate governance disclosure for the six months ended June 30, 2012, with recommendations to the Company Board for approval;

(xiv) review of the criteria for the director self-evaluation exercise, with a recommendation to the Company Board for approval;

(xv) review of the reports from PricewaterhouseCoopers and an external law firm regarding the review of existing corporate governance policies, procedures, systems and controls which was undertaken by the Company in conjunction with PricewaterhouseCoopers and the external law firm, with recommendations to the Company Board for approval;

(xvi) review and monitoring of training and continuous professional development for directors and senior management; and

(xvii) review of group policies (including the HKT Code), with recommendations to the Company Board for approval.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2012, with a recommendation to the Company Board for approval.

For the year ended December 31, 2012, fees paid and payable to the auditors of the HKT Limited Group amounted to approximately HK$10 million for audit services (2011: HK$10 million) and HK$6 million for non-audit services (2011: HK$29 million). The non-audit services included the following:

Nature of service	HK$ million
Tax services	3
Other services	3
	6

The fees for other services for the year ended December 31, 2011 included professional fees in relation to the global offering of the HKT Trust and the Company.

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising three members, including two independent non-executive directors and one non-executive director, has been established to review and monitor dealings primarily with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis. The Regulatory Compliance Committee is chaired by an independent non-executive director.

The members of the Regulatory Compliance Committee during the year and up to the date of this annual report are:
Sir Rogerio (Roger) Hyndman Lobo *(Chairman)*
Professor Chang Hsin Kang
Li Fushen (appointed on August 9, 2012)
Lu Yimin (resigned on August 9, 2012)

COMMITTEE OF THE TRUSTEE-MANAGER BOARD

The Trustee-Manager Board has established an Audit Committee (the "Trustee-Manager Audit Committee") with defined terms of reference which are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Trustee-Manager Audit Committee has been structured to only include independent non-executive directors of the Trustee-Manager.

COMMITTEE OF THE TRUSTEE-MANAGER BOARD *(CONTINUED)*

The Trustee-Manager Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Trust and the Trustee-Manager, and that the directors of the Trustee-Manager have exercised the care, diligence and skills prescribed by law when presenting the HKT Trust's and the Trustee-Manager's results to the registered holders of Share Stapled Units. The Trustee-Manager Audit Committee is also responsible for ensuring an effective system of internal controls of each of the HKT Trust and the Trustee-Manager (where applicable) is in place. On February 27, 2012, the Trustee-Manager Board revised the terms of reference of the Trustee-Manager Audit Committee to cover corporate governance functions. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Trustee-Manager Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the external auditors' independence, procedures have been adopted by the Trustee-Manager Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

At the Trustee-Manager Audit Committee meeting held on February 26, 2013, the Trustee-Manager Audit Committee recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2013 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditors of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property (as defined in the Trust Deed). The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company Board.

The Trustee-Manager Audit Committee comprises four members, each of them is an independent non-executive director of the Trustee-Manager and a member of the Audit Committee of the Company Board.

The members of the Trustee-Manager Audit Committee are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
The Hon Raymond George Hardenbergh Seitz

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditors and reviews their reports. During 2012, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

The Trustee-Manager Audit Committee reviewed and noted the resolutions passed and matters approved at the Audit Committee of the Company, whose summary of work is set out under the heading of "**Audit Committee**" on pages 22 and 23 of this annual report, and where appropriate, approved those items specific to the HKT Trust and the Trustee-Manager. Set forth below is the other work performed by the Trustee-Manager Audit Committee during 2012:

(i) review of the terms of reference of the Trustee-Manager Audit Committee and recommendation to the Trustee-Manager Board for approval the proposed amendments;

(ii) review of the financial information of the Trustee-Manager for the period ended December 31, 2011, with a recommendation to the Trustee-Manager Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its audit strategy memorandum, its report for the Trustee-Manager Audit Committee and the management representation letter for the year/period ended December 31, 2011, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2012 Combined Annual General Meeting;

(iv) consideration and approval of the Group Internal Audit reports and internal audit workplan;

(v) review of the financial information of the Trustee-Manager for the six months ended June 30, 2012, with a recommendation to the Trustee-Manager Board for approval;

(vi) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Trustee-Manager Audit Committee and the management representation letter for the six months ended June 30, 2012;

(vii) review and approval of the audit strategy memorandum for the year ending December 31, 2012; and

(viii) review and approval of PricewaterhouseCoopers' pre-year end report for the Trustee-Manager Audit Committee and the audit engagement letters for the year ending December 31, 2012.

COMMITTEE OF THE TRUSTEE-MANAGER BOARD *(CONTINUED)*

Subsequent to the year end, the Trustee-Manager Audit Committee reviewed the annual report and the annual results announcement of the HKT Trust (including the financial information of the Trustee-Manager) for the year ended December 31, 2012, with a recommendation to the Trustee-Manager Board for approval.

For the year ended December 31, 2012, fees paid and payable to the auditors of the HKT Trust and the Trustee-Manager amounted to approximately HK$0.04 million for audit services (2011: HK$0.03 million) and no non-audit services (2011: nil) have been provided by the auditors.

The Trustee-Manager has not established a separate Remuneration Committee and Nomination Committee as its directors are not entitled to any remuneration under the Trust Deed, and as the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals given the unique circumstances of the HKT Trust.

INTERNAL CONTROLS

The directors of the Company and the Trustee-Manager are responsible for maintaining and reviewing the effectiveness of the internal controls of the HKT Limited Group and the HKT Trust, respectively, including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact the HKT Limited Group's performance are appropriately identified and managed. In the case of the Company, such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

The directors, through the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be), are kept regularly apprised of significant risks that may impact on the HKT Trust and the HKT Limited Group's performance. Group Internal Audit reports to the Audit Committee of the Company Board and the Trustee-Manager Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management department reviews significant aspects of risk management for the HKT Trust and the companies within the HKT Limited Group and makes recommendations to the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be) from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

The Audit Committee of the Company and the Trustee-Manager Audit Committee (to the extent required) have established and oversee a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee of the Company and the Trustee-Manager Audit Committee have designated the Head of Group Internal Audit to receive on their behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee of the Company and the Trustee-Manager Audit Committee.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions, including requiring the management of the Company to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and the Company's business practices in the future.

Group Internal Audit provides independent assurance to the Company Board and the Trustee-Manager Board and executive management of the Company on the adequacy and effectiveness of internal controls for the HKT Limited Group and the HKT Trust. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer of the Company.

INTERNAL CONTROLS *(CONTINUED)*

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the HKT Trust and the HKT Limited Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Trustee-Manager Audit Committee and the Audit Committee and key members of executive and senior management of the Company, respectively. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Trustee-Manager Audit Committee and the Audit Committee and executive and senior management of the Company (as the case may be) periodically.

During 2012, Group Internal Audit conducted selective reviews of the effectiveness of the system of internal controls of the HKT Limited Group and the HKT Trust over financial, operational, compliance controls and risk management functions with emphasis on information technology and procurement. Additionally, heads of major business and corporate functions of the HKT Limited Group were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee of the Company, which then reviewed and reported the same to the Company Board. The Audit Committee of the Company, the Trustee-Manager Audit Committee, the Company Board and the Trustee-Manager Board were not aware of any areas of concern that would have an adverse impact on the financial position or results of operations of the HKT Limited Group and the HKT Trust (including the Trustee-Manager) and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function.

In addition to the review of internal controls undertaken within the Company, from time to time, management and/or the directors will engage professional third parties to assess and comment on the adequacy of the system of internal controls and, where appropriate, recommendations will be adopted and enhancements to the internal controls will be made.

Further information on internal controls adopted and implemented by the HKT Limited Group and the HKT Trust is available under the "Corporate Governance" section on the Company's website.

POTENTIAL CONFLICTS OF INTERESTS

The Trustee-Manager and the Company have instituted the following procedures or established the following measures to deal with potential conflicts of interest issues, including:

- if a director has a conflict of interest in a matter to be considered by the Company Board or the Trustee-Manager Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting rather than a written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting.

- in respect of matters in which PCCW and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by PCCW and/or its subsidiaries to the Company Board or the Trustee-Manager Board to represent PCCW's (or its subsidiaries') interests will abstain from voting. In such matters, the quorum must comprise a majority of the independent non-executive directors and must exclude any nominee directors appointed by PCCW and/or its subsidiaries.

- where matters concerning the HKT Limited Group relate to transactions entered into or to be entered into with a related party of the Trustee-Manager (which would include relevant associates thereof), the HKT Trust or the Company, the relevant board is required to consider the terms of the transactions to satisfy itself that the transactions are conducted on normal commercial terms, are not prejudicial to the interests of the HKT Limited Group and the registered holders of Share Stapled Units and are in compliance with applicable requirements of the Listing Rules and the Trust Deed relating to the transaction in question. The relevant board will also review these contracts to ensure that they comply with the provisions of the Listing Rules and the Trust Deed relating to connected transactions (as may be amended from time to time) as well as any other guidelines as may from time to time be prescribed by the Securities and Futures Commission of Hong Kong and the Stock Exchange that are applicable to the HKT Trust.

- a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually by the independent non-executive directors and the external auditor.

POTENTIAL CONFLICTS OF INTERESTS *(CONTINUED)*

- the HKT Trust and the Company has each established an Audit Committee in accordance with the Listing Rules from among the independent non-executive directors to, amongst other matters, regularly review their respective internal control systems and internal audit reports.

COMPANY SECRETARY

Ms Philana WY Poon has been appointed as the Group General Counsel and Company Secretary of HKT Limited and the HKT Trust since the listing of the Share Stapled Units on the Stock Exchange. She is also the Group Company Secretary of PCCW.

During the year ended December 31, 2012, Ms Poon has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

RIGHTS OF REGISTERED HOLDERS OF SHARE STAPLED UNITS

Procedures to convene an extraordinary general meeting of the Company and the HKT Trust and put forward proposals at general meetings

General meetings of the Company shall be convened on the written requisition of any two or more shareholders of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists holding as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the HKT Trust holding not less than 5% of the units of the HKT Trust for the time being in issue and outstanding) at any time convene a meeting of registered holders of units at such time or place in Hong Kong.

Shareholders of the Company and the registered holders of units of the HKT Trust can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Company Articles and the Trust Deed when making any requisitions or proposals for transaction at the general meetings of the Company and the HKT Trust.

Procedures by which enquiries may be put to the Company Board and the Trustee-Manager Board

Registered holders of Share Stapled Units may send enquiries to the Company Board and the Trustee-Manager Board in writing c/o the Corporate Secretariat with the following contact details:

Attention:	Company Secretary
Address:	39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax:	+852 2962 5926
Email:	cosec@hkt.com

INVESTOR RELATIONS AND COMMUNICATION WITH THE REGISTERED HOLDERS OF SHARE STAPLED UNITS

The HKT Trust (including the Trustee-Manager) and the Company are committed to promoting and maintaining effective communication with the registered holders of Share Stapled Units (both individual and institutional) and other stakeholders. A Unitholders Communication Policy has been adopted for ensuring the HKT Trust and the Company provide the registered holders of Share Stapled Units and the investment community with appropriate and timely information about the HKT Trust and the Company in order to enable the registered holders of Share Stapled Units to exercise their rights in an informed manner, and to allow the investment community to engage actively with the HKT Trust and the Company. The Unitholders Communication Policy is available on the Company's website (www.hkt.com).

The Company and the Trustee-Manager encourage two-way communications with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's and the HKT Trust's activities is provided in the annual and interim reports and circulars which are sent to the registered holders of Share Stapled Units and are also available on the websites of the Company and the HKEx.

In addition to dispatching this annual report to the registered holders of Share Stapled Units, financial and other information relating to the HKT Limited Group, the HKT Trust and the Trustee-Manager and their respective business activities have been disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 160 of this annual report and also provided in the Unitholders Communication Policy.

INVESTOR RELATIONS AND COMMUNICATION WITH THE REGISTERED HOLDERS OF SHARE STAPLED UNITS *(CONTINUED)*

Registered holders of Share Stapled Units are encouraged to attend the forthcoming Combined Annual General Meeting of the Company and the HKT Trust for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the business relating to HKT Limited Group and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2012, there were no significant changes to the Company Articles and the Trust Deed save for those approved at the Combined Annual General Meeting held on May 3, 2012 to pass a special resolution approving the amendments to the Company Articles to conform to the provisions of the Listing Rules and the CG Code (including the amendments thereto); and the Trust Deed for ensuring that its provisions are consistent with the amended provisions of the Company Articles. The updated consolidated version of these constitutional documents are available on the websites of the Company and the HKEx.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue increased by 6% to HK$21,081 million
- Total EBITDA increased by 3% to HK$7,669 million
- Profit attributable to holders of Share Stapled Units increased by 32% to HK$1,610 million; basic earnings per Share Stapled Unit was 25.09 HK cents
- Adjusted funds flow for the year increased by 12% to HK$2,672 million; adjusted funds flow per Share Stapled Unit was 41.64 HK cents
- Final distribution per Share Stapled Unit of 21.58 HK cents

MANAGEMENT REVIEW

In the first full financial year since its listing, HKT achieved an excellent set of financial results in 2012 with strong growth in revenue, EBITDA, net profit and, most importantly, adjusted funds flow. These financial results exceed the forecasts made in HKT's global offering prospectus issued in November 2011, demonstrating the strong underlying fundamentals of our business and the successful execution of our strategy.

Total revenue for the year ended December 31, 2012 increased by 6% to HK$21,081 million driven by the strong performance of the Telecommunications Services ("TSS") business and further gains made in the Mobile business. Total EBITDA for the year was HK$7,669 million, an increase of 3% over the previous year and exceeding the prospectus forecast of HK$7,621 million.

Profit attributable to holders of Share Stapled Units was HK$1,610 million, a substantial increase of 32% over the previous year and 18% above the prospectus forecast of HK$1,364 million. This impressive growth was attributable to the higher EBITDA achieved from the TSS and Mobile businesses and significant savings in net finance costs during the year.

Adjusted funds flow for the year ended December 31, 2012 reached HK$2,672 million, an increase of 12% over the previous year and 4% above the prospectus forecast of HK$2,574 million. Adjusted funds flow per Share Stapled Unit was 41.64 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 21.58 HK cents per Share Stapled Unit for the year ended December 31, 2012. This brings the 2012 full-year distribution to 41.64 HK cents per Share Stapled Unit (comprising 20.06 HK cents as interim and 21.58 HK cents as final distribution). The total payment to holders of Share Stapled Units amounts to HK$2,672 million being 100% of the 2012 adjusted funds flow.

OUTLOOK

It is evident that the hard work of the HKT team last year has ignited a strong momentum for the Company to continue to grow in 2013. As we continue to benefit from the steady and solid performance of our long-established businesses, we also expect our new business initiatives to flourish and make more significant contributions in the coming year. The broadband and mobile businesses shall continue to be the main growth drivers, while the global connectivity business has considerable development potential.

Competition is likely to remain keen, although we are confident that our first-class network and innovative products and services continue to provide a competitive edge. Furthermore, our professional and friendly customer service staff and investment in customer service web portal, apps and other channels will further differentiate HKT from the other operators in the market.

The general economic conditions will also likely remain challenging in the foreseeable future in the absence of a breakthrough of the economic doldrums in the U.S. and Europe. Management will cautiously examine any opportunities and threats with a view to further developing our businesses and maximizing return for unitholders.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Revenue							
TSS	8,259	9,036	17,295	**8,425**	**9,941**	**18,366**	6%
Mobile	919	1,048	1,967	**1,133**	**1,333**	**2,466**	25%
Other Businesses	479	331	810	**368**	**316**	**684**	(16)%
Eliminations	(120)	(127)	(247)	**(211)**	**(224)**	**(435)**	(76)%
Total revenue	9,537	10,288	19,825	**9,715**	**11,366**	**21,081**	6%
Cost of sales	(3,758)	(4,391)	(8,149)	**(3,922)**	**(5,105)**	**(9,027)**	(11)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(2,156)	(2,109)	(4,265)	**(2,057)**	**(2,328)**	**(4,385)**	(3)%
EBITDA[1]							
TSS	3,386	3,619	7,005	**3,467**	**3,659**	**7,126**	2%
Mobile	218	292	510	**342**	**394**	**736**	44%
Other Businesses	19	(123)	(104)	**(73)**	**(120)**	**(193)**	(86)%
Total EBITDA[1]	3,623	3,788	7,411	**3,736**	**3,933**	**7,669**	3%
TSS EBITDA[1] Margin	*41%*	*40%*	*41%*	***41%***	***37%***	***39%***	
Mobile EBITDA[1] Margin	*24%*	*28%*	*26%*	***30%***	***30%***	***30%***	
Total EBITDA[1] Margin	*38%*	*37%*	*37%*	***38%***	***35%***	***36%***	
Depreciation and amortization	(2,132)	(2,118)	(4,250)	**(2,281)**	**(2,407)**	**(4,688)**	(10)%
Gain/(Loss) on disposal of property, plant and equipment, net	1	4	5	**2**	**(2)**	**–**	NA
Other (losses)/gains, net	(28)	–	(28)	**10**	**8**	**18**	NA
Finance costs, net	(733)	(771)	(1,504)	**(411)**	**(394)**	**(805)**	46%
Share of results of associates and jointly controlled companies	(5)	(14)	(19)	**(62)**	**(17)**	**(79)**	(316)%
Profit before income tax	726	889	1,615	**994**	**1,121**	**2,115**	31%

ADJUSTED FUNDS FLOW[2]

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/(Worse) y-o-y
Total EBITDA[1]	3,623	3,788	7,411	**3,736**	**3,933**	**7,669**	3%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(613)	(802)	(1,415)	**(756)**	**(963)**	**(1,719)**	(21)%
Capital expenditures	(721)	(848)	(1,569)	**(832)**	**(1,074)**	**(1,906)**	(21)%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,289	2,138	4,427	**2,148**	**1,896**	**4,044**	(9)%
Adjusted for:							
Tax payment	(24)	(106)	(130)	**(23)**	**(180)**	**(203)**	(56)%
Net finance costs paid	(660)	(662)	(1,322)	**(355)**	**(373)**	**(728)**	45%
Changes in working capital	(253)	(335)	(588)	**(340)**	**(101)**	**(441)**	25%
Adjusted funds flow[2]	1,352	1,035	2,387	**1,430**	**1,242**	**2,672**	12%
Annual adjusted funds flow per Share Stapled Unit (HK cents)[3]			37.20			**41.64**	

KEY OPERATING DRIVERS[4]

	2011 H1	2011 H2	**2012 H1**	**2012 H2**	Better/(Worse) y-o-y
Exchange lines in service ('000)	2,625	2,636	**2,641**	**2,646**	0%
Business lines ('000)	1,217	1,228	**1,233**	**1,238**	1%
Residential lines ('000)	1,408	1,408	**1,408**	**1,408**	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,437	1,518	**1,540**	**1,567**	3%
Retail consumer broadband subscribers ('000)	1,285	1,363	**1,385**	**1,410**	3%
Retail business broadband subscribers ('000)	116	119	**122**	**126**	6%
Traditional data (Exit Gbps)	1,243	1,501	**1,689**	**1,811**	21%
Retail IDD minutes ('M mins)	618	591	**558**	**551**	(8)%
Mobile subscribers ('000)	1,506	1,535	**1,605**	**1,645**	7%
Post-paid subscribers ('000)	923	945	**1,005**	**1,013**	7%
Prepaid subscribers ('000)	583	590	**600**	**632**	7%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interest in an associate and jointly controlled companies and the Group's share of results of an associate and jointly controlled companies. 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 ("HKFRS") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 2 *Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The Group's Adjusted Funds Flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.*

Note 3 *Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of issued Share Stapled Units as at end of the respective year.*

Note 4 *Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*

Note 5 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents.*

Note 6 *Group capital expenditures represent additions to property, plant and equipment, and interests in leasehold land.*

Telecommunications Services ("TSS")

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Local Telephony Services	1,653	1,744	3,397	**1,680**	**1,721**	**3,401**	0%
Local Data Services	2,660	3,020	5,680	**2,875**	**3,180**	**6,055**	7%
International Telecommunications Services	2,188	2,011	4,199	**2,188**	**3,059**	**5,247**	25%
Other Services	1,758	2,261	4,019	**1,682**	**1,981**	**3,663**	(9)%
TSS Revenue	8,259	9,036	17,295	**8,425**	**9,941**	**18,366**	6%
Cost of sales	(3,205)	(3,989)	(7,194)	**(3,488)**	**(4,682)**	**(8,170)**	(14)%
Operating costs before depreciation and amortization	(1,668)	(1,428)	(3,096)	**(1,470)**	**(1,600)**	**(3,070)**	1%
TSS EBITDA[1]	3,386	3,619	7,005	**3,467**	**3,659**	**7,126**	2%
TSS EBITDA[1] margin	*41%*	*40%*	*41%*	***41%***	***37%***	***39%***	

The growth in revenue and EBITDA in 2012 reflected the fundamental strength of HKT's TSS business. Driven by the successful fiber service strategy, turnaround to revenue growth of our traditional fixed-line business and strong growth in our international telecommunications business, TSS revenue for the year ended December 31, 2012 increased by 6% to HK$18,366 million and EBITDA increased by 2% to HK$7,126 million for the year.

Local Telephony Services. Local telephony services halted the decline in revenue and recorded a modest increase to HK$3,401 million for the year ended December 31, 2012, compared to HK$3,397 million a year earlier. The return to revenue growth in 2012 reflects the success of our innovative eye multimedia service, an integral part of our quadruple-play strategy which is instrumental in increasing customer stickiness. Total fixed lines in service at the end of December 2012 increased to 2,646,000, and eye penetration of the residential customer base grew to 19% for the year.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 7% year-on-year to HK$6,055 million for the year ended December 31, 2012. The strong take-up of our fiber service accompanied by our premium customer service drove a 9% year-on-year growth in broadband network revenue for the year. At the end of December 2012, the total number of broadband access lines increased by 3% year-on-year to 1,567,000. Of these broadband access lines, 300,000 were fiber-to-the-home (FTTH) connections. Meanwhile, local data revenue also recorded a healthy growth due to increased business demand for local data services.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2012 increased significantly by 25% year-on-year to HK$5,247 million, driven by strong demand growth from carrier customers and enterprises and the addition of a number of new customers following the acquisition of businesses and assets in Europe and Africa. During the year, international voice and data connectivity services performed very well due to continued growing demand from both wholesale and enterprise customers.

Other Services. Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment ("CPE"), provision of technical and maintenance subcontracting services and contact centre services ("Teleservices"). Other services revenue for the year ended December 31, 2012 decreased by 9% year-on-year to HK$3,663 million, primarily due to lower CPE sales and the timing of the completion of certain telecommunications projects.

Mobile

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Mobile Revenue	919	1,048	1,967	**1,133**	**1,333**	**2,466**	25%
Mobile EBITDA[1]	218	292	510	**342**	**394**	**736**	44%
Mobile EBITDA[1] margin	*24%*	*28%*	*26%*	***30%***	***30%***	***30%***	

The Mobile business once again delivered stellar growth with a 25% surge in total mobile revenue to HK$2,466 million for the year ended December 31, 2012. Mobile service revenue also increased by 25% year-on-year on a growing customer base and higher average revenue per user ("ARPU").

During the year, the Mobile business witnessed healthy subscriber growth which lifted the total subscriber base to 1,645,000 at the end of December 2012, up 7% from a year earlier. The number of post-paid subscribers also increased by 7% to 1,013,000. More importantly, our continued focus on acquiring high-quality, premium smart device customers pushed the blended post-paid exit ARPU to HK$206, up 12% from HK$184 a year ago.

Our focus on providing an unparalleled mobile experience is reflected by our continued mobile network investment, highlighted by the launch of our 4G LTE service in May, and the roll-out of numerous mobile service initiatives during the year including unlimited voice plans. Our strong suite of 4G smartphone offerings combined with our range of "Ultimate Mobility" service plans continued to drive mobile data usage. As a result, mobile data revenue for the year ended December 31, 2012 increased by 55% year-on-year and accounted for 73% of mobile service revenue for the year.

HKT enjoys unrivalled competitive advantages because of its unique fixed-mobile integrated network boasting an extensive fiber backhaul network and more than 11,000 Wi-Fi hotspots as at the end of December 2012. Benefiting from these advantages and the continued improvement in ARPU, the Mobile business recorded impressive EBITDA growth of 44% year-on-year to HK$736 million and margin improvement from 26% in 2011 to 30% in 2012.

Other Businesses

Other Businesses primarily comprised Unihub China Information Technology Company Limited (the "ZhongYing JV"), which provides network integration and related services to telecommunications operators in the PRC. Revenue from Other Businesses for the year ended December 31, 2012 was HK$684 million, as compared to HK$810 million a year ago. The decline in revenue was mainly due to the shifting business focus of ZhongYing JV from the lower-margin CPE sales to software development projects with lower revenue but higher margin.

Eliminations

Eliminations were HK$435 million for the year ended December 31, 2012, as compared to HK$247 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed among HKT's business units.

Cost of Sales

Cost of sales for the year ended December 31, 2012 increased by 11% to HK$9,027 million. The increase in cost of sales was in line with the growth in revenue.

General and Administrative Expenses

HKT continued to focus on enhancing its operational efficiency and productivity to mitigate the impact of the overall inflationary environment, while at the same time investing for business growth. In 2012, we launched a series of promotion and publicity campaigns and opened flagship stores that reinforce our leading brand in the market, with a view to driving revenue growth. Against this backdrop, we managed to contain the increase in net operating expenses before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment to 3% to HK$4,385 million. During the year, customer acquisition costs also increased in line with business growth and thus depreciation and amortization expenses increased by 10% to HK$4,688 million. As a result, general and administrative expenses increased by 7% to HK$9,073 million for the year ended December 31, 2012.

EBITDA[1]

Strong performance in the TSS business and continued growth in the Mobile business led to an overall EBITDA improvement in 2012. EBITDA increased by 3% to HK$7,669 million for the year ended December 31, 2012.

Finance Costs, Net

Net finance costs for the year ended December 31, 2012 decreased by 46% to HK$805 million. The significant reduction in finance costs was primarily due to the interest savings after the repayment of the US$1 billion 7.75% guaranteed notes due 2011 in November 2011.

Income Tax

Income tax expense for the year ended December 31, 2012 was HK$455 million, as compared to HK$344 million a year ago, representing an effective tax rate of 22% (2011: 21%). The increase in the tax expense was mainly due to higher profit before income tax during the year. The rate is higher than the statutory tax rate of 16.5%, mainly due to tax losses of certain subsidiaries not recognized during the year.

Non-controlling Interests

Non-controlling interests of HK$50 million primarily represented the net profit attributable to the minority shareholders of the ZhongYing JV.

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

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2012 increased by 32% to HK$1,610 million (2011: HK$1,221 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholders' return and a sound capital position. The Group also makes adjustments 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[5] was HK$24,124 million as at December 31, 2012 (December 31, 2011: HK$23,583 million). Cash and cash equivalents totaled HK$2,401 million as at December 31, 2012 (December 31, 2011: HK$2,226 million). The Group's net debt[5] was HK$21,723 million as at December 31, 2012 (December 31, 2011: HK$21,357 million).

As at December 31, 2012, the Group had ample liquidity as evidenced by committed bank loan facilities totaling HK$23,182 million, of which HK$10,758 million remained undrawn.

The Group's gross debt[5] to total assets was 36% as at December 31, 2012 (2011: 36%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2012, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[6]

Capital expenditure including capitalized interest for the year ended December 31, 2012 was HK$1,945 million (2011: HK$1,600 million). Capital expenditure remained well below 10% of revenue and was at 9.2% in 2012, compared to 8.1% in 2011 and 8.7% in 2010. Major outlays for the year were mainly in network expansion and enhancement to meet demand for high-speed broadband fiber services, mobile services and international networks.

Going forward, 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 cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2012, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated short-term and long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2012, no assets of the Group (2011: certain assets of the Group with an aggregate carrying value of HK$62 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2011	**2012**
Performance guarantees	240	**280**
Others	3	**63**
	243	**343**

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

HUMAN RESOURCES

As at December 31, 2012, the Group had approximately 15,500 employees (2011: 15,300). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States. The Group has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 21.58 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2012 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 21.58 HK cents per ordinary share, in respect of the same period), subject to the approval of the registered unitholders of the HKT Trust and the shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 20.06 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2012 was paid to the registered holders of Share Stapled Unit/shareholders of the Company in September 2012.

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

FINANCIAL INFORMATION

COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the annual report together with the audited consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the "Group") and (ii) the Company and its subsidiaries (collectively the "HKT Limited Group") (the consolidated financial statements of the Group and the HKT Limited Group are presented together and referred to as the "HKT Trust and HKT Limited consolidated financial statements") for the year ended December 31, 2012.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2012, which are set out in the accompanying financial statements on pages 150 to 159.

PRINCIPAL ACTIVITIES

The HKT Trust, a trust constituted on November 7, 2011 under the laws of the Hong Kong Special Administrative Region ("Hong Kong") and managed by the Trustee-Manager, has been established as a fixed single investment trust, with its activities being limited to investing in the Company and anything necessary or desirable for or in connection with investing in the Company.

The principal activities of the HKT Limited Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

The detailed segment information of the Group is set out in note 7 to the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager, an indirect wholly-owned subsidiary of PCCW Limited ("PCCW"), has a specific and limited role which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the businesses managed by the HKT Limited Group.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2012 are set out in the accompanying HKT Trust and HKT Limited consolidated financial statements on page 63.

The results of the Trustee-Manager for the year ended December 31, 2012 are set out in the accompanying financial statements on page 151.

An interim distribution/dividend of 20.06 HK cents per share stapled unit of the HKT Trust and the Company (the "Share Stapled Unit")/ ordinary share of the Company for the six months ended June 30, 2012, totaling approximately HK$1,287 million, was paid to the registered holders of Share Stapled Unit/shareholders of the Company in September 2012.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 21.58 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the Trust Deed (as defined below)), in respect of the year ended December 31, 2012 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 21.58 HK cents per ordinary share, in respect of the same period), subject to the approval of the registered unitholders of the HKT Trust and the shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The Trustee-Manager Board does not recommend the payment of a final dividend for the year ended December 31, 2012 to CAS Holding No. 1 Limited, the sole shareholder of the Trustee-Manager.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and/or liabilities of the Group for the last five financial years is set out on page 149.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Particulars of the principal subsidiaries of the Company, and interests in an associate and jointly controlled companies of the Group are set out in notes 23, 19 and 20 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager itself does not beneficially own any subsidiaries, associates nor jointly controlled companies.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment and interests in leasehold land during the year are set out in notes 15 and 16 to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in notes 24(c) and 25 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS AND SHARE CAPITAL

There were no new Share Stapled Units issued during the year ended December 31, 2012.

Details of the share capital of the Company during the year ended December 31, 2012 are set out in note 28 to the HKT Trust and HKT Limited consolidated financial statements.

Details of the share capital of the Trustee-Manager during the year ended December 31, 2012 are set out in note 7 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Group during the year are set out in note 29 to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited during the year is set out on page 153.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2012, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The directors of the Company (the "Company Directors") and the directors of the Trustee-Manager (the "Trustee-Manager Directors") (the Company Directors and the Trustee-Manager Directors collectively referred to as the "Directors") who held office during the year ended December 31, 2012 and up to the date of this report are:

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

Non-Executive Directors
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen

Independent Non-Executive Directors
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between the Trustee-Manager and the Company as supplemented, amended or substituted from time to time (the "Trust Deed"), the Trustee-Manager Directors must be the same individuals who serve as the Company Directors. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board.

In accordance with the Company's amended and restated articles of association and the Trust Deed, Hui Hon Hing, Susanna, Peter Anthony Allen, Li Fushen and Professor Chang Hsin Kang shall retire from office of both the Company and the Trustee-Manager at the forthcoming AGM and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Trustee-Manager and the Company together have received from each of their independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and consider that all four independent non-executive Directors as at the date of this report, namely, Professor Chang Hsin Kang, Sir Rogerio (Roger) Hyndman Lobo, The Hon Raymond George Hardenbergh Seitz and Sunil Varma are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the HKT Limited Group which is not determinable by the HKT Limited Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2012, the Directors, the chief executives of the Company and the Trustee-Manager (collectively referred to as the "Chief Executives") and their respective associates had the following interests and short positions in the Share Stapled Units and underlying Share Stapled Units, and the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in the HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the Share Stapled Units held by the Directors and the Chief Executives:

Name of Director/Chief Executive	Number of Share Stapled Units held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of issued Share Stapled Units
Li Tzar Kai, Richard	–	–	219,573,506 *(Note 1(a))*	125,358,732 *(Note 1(b))*	–	344,932,238	5.38%
Alexander Anthony Arena	1,054,756	–	–	–	–	1,054,756	0.02%
Peter Anthony Allen	18,245	–	–	–	–	18,245	0.0003%
Chung Cho Yee, Mico	84,100	802 *(Note 2)*	–	–	–	84,902	0.001%
Professor Chang Hsin Kang	2,790	–	–	–	–	2,790	0.00004%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

1. Interests in the HKT Trust and HKT Limited *(continued)*

Notes:

1. (a) Of these Share Stapled Units, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 17,142,046 Share Stapled Units and Eisner Investments Limited ("Eisner") held 202,431,460 Share Stapled Units. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

   (b) These interests represented:

   (i) a deemed interest in 2,646,156 Share Stapled Units held by Yue Shun Limited ("Yue Shun"), a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 2,646,156 Share Stapled Units held by Yue Shun;

   (ii) a deemed interest in 11,152,220 Share Stapled Units held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 11,152,220 Share Stapled Units held by PCGH;

   (iii) a deemed interest in 111,548,140 Share Stapled Units held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.80% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 111,548,140 Share Stapled Units held by PCRD; and

   (iv) a deemed interest in 12,216 Share Stapled Units held by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 12,216 Share Stapled Units held by PBI LLC in the capacity of investment manager.

2. These Share Stapled Units were held by the spouse of Chung Cho Yee, Mico.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company

A. PCCW (being the holding company of the HKT Trust and the Company and therefore an associated corporation)

(i) The table below sets out the aggregate long positions in the shares and underlying shares of PCCW held by the Directors and the Chief Executives:

	Number of ordinary shares of PCCW held				Number of underlying shares of PCCW held under equity derivatives		Approximate percentage of issued share capital of PCCW
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests		Total	
Li Tzar Kai, Richard	–	–	271,666,824 *(Note 1(a))*	1,740,004,335 *(Note 1(b))*	–	2,011,671,159	27.66%
Alexander Anthony Arena *(Note 3)*	760,000	–	–	–	6,400,200 *(Note 2)*	7,160,200	0.10%
Peter Anthony Allen	253,200	–	–	–	2,000,000 *(Note 4)*	2,253,200	0.03%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 5)*	–	–	5,695,200 *(Note 4)*	6,889,915	0.09%
Professor Chang Hsin Kang	64,180	–	–	–	–	64,180	0.001%

Notes:

1. (a) Of these PCCW shares, PCD held 237,919,824 shares and Eisner held 33,747,000 shares.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun;

   (ii) a deemed interest in 154,785,177 shares of PCCW held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 154,785,177 shares of PCCW held by PCGH;

   (iii) a deemed interest in 1,548,211,301 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,548,211,301 shares of PCCW held by PCRD; and

   (iv) a deemed interest in 281,000 shares of PCCW held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 281,000 shares of PCCW held by PBI LLC in the capacity of investment manager.

2. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying shares in PCCW held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 6,400,000 underlying shares of PCCW in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner pursuant to a share option scheme of PCCW adopted on September 20, 1994, termination of which was approved by the shareholders of PCCW at its annual general meeting held on May 19, 2004 ("1994 PCCW Scheme"), the details of which are set out in paragraph 2A(ii) below.

3. As disclosed previously in the prospectus dated November 16, 2011 jointly issued by the HKT Trust and the Company (the "Prospectus") and the annual reports and interim reports of PCCW, in 2009 a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the remuneration committee of PCCW prior to its finalization. The committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW.

4. These interests represented the interests in underlying shares of PCCW in respect of share options granted by PCCW to these directors as beneficial owners pursuant to the 1994 PCCW Scheme, the details of which are set out in paragraph 2A(ii) below.

5. These PCCW shares were held by the spouse of Chung Cho Yee, Mico.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company *(continued)*

A. PCCW (being the holding company of the HKT Trust and the Company and therefore an associated corporation) *(continued)*

(ii) The table below sets out the interests of the Directors and the Chief Executives in share options of PCCW which remain outstanding under the 1994 PCCW Scheme and the share options movements during the year ended December 31, 2012:

Name of Director/ Chief Executive	Date of grant *(Note)*	Vesting period *(Note)*	Exercisable period *(Note)*	Exercise price HK$	Number of options Outstanding at 01.01.2012	Number of options Outstanding at 12.31.2012
Alexander Anthony Arena	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	6,400,000	6,400,000
Peter Anthony Allen	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	2,000,000	2,000,000
Chung Cho Yee, Mico	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,695,200	5,695,200

Note: All dates are shown month/day/year.

B. PCCW-HKT Capital No.2 Limited (an indirect wholly-owned subsidiary of the Company and therefore an associated corporation)

PineBridge Investments Asia Limited ("PBIA") in the capacity of investment manager held US$10,000,000 of 6% guaranteed notes due 2013 (the "2013 Notes") issued by PCCW-HKT Capital No.2 Limited. PBIA was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$10,000,000 of the 2013 Notes held by PBIA in the capacity of investment manager.

C. Pacific Century Premium Developments Limited ("PCPD", an indirect subsidiary of PCCW and therefore an associated corporation)

The table below sets out the long position in the shares and underlying shares of PCPD held by a Director:

Name of Director	Number of ordinary shares of PCPD held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCPD held under equity derivatives	Total	Approximate percentage of issued share capital of PCPD
Chung Cho Yee, Mico	–	–	–	–	5,000,000	5,000,000	1.26%

2. Interests in the Associated Corporations of the Company *(continued)*

C. Pacific Century Premium Developments Limited ("PCPD", an indirect subsidiary of PCCW and therefore an associated corporation) *(continued)*

The above interests represented the interests in underlying shares in respect of share options granted by PCPD to the Director as beneficial owner pursuant to a share option scheme of PCPD adopted on March 17, 2003, the termination of which was approved by the shareholders of PCPD at its annual general meeting held on May 13, 2005 ("2003 PCPD Scheme"). Details of the PCPD's share options outstanding and movements under the 2003 PCPD Scheme during the year ended December 31, 2012 are as follows:

Name of Director	Date of grant *(Note)*	Vesting period *(Note)*	Exercisable period *(Note)*	Exercise price HK$	Number of options Outstanding at 01.01.2012	Number of options Outstanding at 12.31.2012
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

Note: All dates are shown month/day/year.

As at December 31, 2012, the total number of shares of PCPD that might be issued upon exercise of all the share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000 shares, which represented approximately 1.26% of the issued share capital of PCPD immediately after the bonus issue of shares and the issue of bonus convertible notes (which took place on June 22, 2012) (the "Bonus Issue") and the share consolidation which became effective on June 25, 2012 (the "Share Consolidation").

There was no adjustment to the number of the outstanding share options or the subscription price of such outstanding options as a result of the reorganization of capital structure of PCPD in relation to the Bonus Issue and the Share Consolidation announced on May 16, 2012. It was certified by Anglo Chinese Corporate Finance, Limited, the financial adviser to PCPD, that adjustments to the subscription price per share of PCPD which might fall to be issued upon the exercise of the aforesaid share options as a result of the Bonus Issue and the Share Consolidation respectively would be net off and would result in no adjustment. For details of the Bonus Issue and the Share Consolidation of PCPD, please refer to the listing document and the circular of PCPD both dated June 4, 2012 and the announcement of PCPD dated June 21, 2012.

D. PCCW-HKT Capital No.4 Limited (an indirect wholly-owned subsidiary of the Company and therefore an associated corporation)

On October 19, 2012, PCG Financial Services Holdings (Singapore) Pte. Ltd. (the "Purchaser") entered into a conditional sale and purchase agreement in relation to the acquisition of, among others, the indirect interests in ING Life Insurance Company (Bermuda) Limited ("ING") (the "Transaction"). Li Tzar Kai, Richard was indirectly interested as to 100% of the issued share capital of the Purchaser. Upon completion of the Transaction, Li Tzar Kai, Richard will be indirectly interested as to 100% of the issued share capital of ING. As at December 31, 2012, ING held US$9,000,000 of 4.25% guaranteed notes due 2016 (the "2016 Notes") issued by PCCW-HKT Capital No.4 Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$9,000,000 of the 2016 Notes held by ING.

Save as disclosed in the foregoing, none of the Directors or the Chief Executives or their respective associates had any interests or short positions in any Share Stapled Units or underlying Share Stapled Units or in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and the Stock Exchange pursuant to the Model Code of the Listing Rules as at December 31, 2012.

SHARE STAPLED UNITS OPTION SCHEME

The HKT Trust and the Company conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing, under which the Trustee-Manager Board and the Company Board may, at their discretion, grant Share Stapled Unit options to the eligible participants to subscribe for such number of Share Stapled Units as the Trustee-Manager Board and the Company Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to the Eligible Participants (as defined below) as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

(2) Eligible Participant

Eligible Participants include (a) any full-time or part-time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries.

The Trustee-Manager is not an Eligible Participant under the 2011-2021 Option Scheme.

(3) Total number of Share Stapled Units available for issue

(i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the Company and the HKT Trust must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 (hereinafter the "Listing Date") unless the approval of holders of Share Stapled Units has been obtained.

(iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011-2021 Option Scheme and any other share option schemes of the Company and the HKT Trust must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

(4) The maximum entitlement of each Eligible Participant

The maximum entitlement of each Eligible Participant (other than a substantial holder of Share Stapled Units or an independent non-executive Director, or any of their respective associates) under the 2011-2021 Option Scheme is the total number of Share Stapled Units issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant provided that such further grant does not exceed 1% of the issued Share Stapled Units as at the relevant time.

(5) Option period

An option may be exercised in whole or in part in accordance with the terms of the 2011-2021 Option Scheme at any time during a period to be notified by the Trustee-Manager Board and the Company Board to each grantee, the expiry date of such period not to exceed ten (10) years from the date of grant of the option.

SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

(6) Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the 2011-2021 Option Scheme will be determined by the Trustee-Manager Board and the Company Board in their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the 2011-2021 Option Scheme.

(7) Payment on acceptance of the option

Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price in accordance with the provisions of the 2011-2021 Option Scheme.

(8) Basis of determining the subscription price

The subscription price for Share Stapled Units in respect of any particular option granted shall be such price as the Trustee-Manager Board and the Company Board shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average of the closing prices of a Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheet for the five (5) business days immediately preceding the date of offer of the option; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

(9) The remaining life of the 2011-2021 Option Scheme

Subject to the earlier termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the Company Board, the 2011-2021 Option Scheme shall be valid and effective for a period of ten (10) years commencing from the Adoption Date, after which period no further options will be offered or granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2011-2021 Option Scheme.

No Share Stapled Unit option has been granted under the 2011-2021 Option Scheme since the Adoption Date and up to and including December 31, 2012.

SHARE STAPLED UNITS AWARD SCHEMES

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes"). The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company and became effective upon listing as a potential means to incentivize and reward the eligible participants.

In the case of the HKT Share Stapled Units Purchase Scheme, the eligible participants include (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme, the eligible participants are the same as the eligible participants in respect of the HKT Share Stapled Units Purchase Scheme, as referred to above, except that the directors of the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants. The reason why directors of the Company or any of its subsidiaries (or any other connected persons) are excluded from participation is to avoid the connected transactions that would otherwise arise on the allotment of new Share Stapled Units to the Trustee (as defined below) to be held in trust for such directors (or other connected persons).

The Share Stapled Units Award Schemes are administered by the Company Board and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

Subject to the rules of the Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time provided that the employee remains, at all times after the award date and on the relevant vesting date, an employee of the HKT Limited Group and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company Board shall be at liberty to waive such condition. Please refer to the details of the awards made to employees during the year ended December 31, 2012 which are set out in note 27(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements on pages 119 to 121.

Save as disclosed above, at no time during the year under review was the Trustee-Manager, the Company or any of their subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units in the HKT Trust and the Company, or shares in, or debentures of, the Company or any other body corporate and none of the Directors or the Chief Executives or their respective spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the HKT Trust and/or the Company or any of their associated corporations or had exercised any such right during the year ended December 31, 2012.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2012, the following persons (other than any Directors or the Chief Executives) were substantial holders of Share Stapled Units, and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

Name	Capacity	Number of Share Stapled Units held	Approximate percentage of issued Share Stapled Units	Note
PCCW	Interest in controlled entity	4,047,215,832	63.07%	1
CAS Holding No. 1 Limited	Beneficial interest	4,047,215,832	63.07%	
The Capital Group Companies, Inc.	Interest in controlled entities	386,360,000	6.02%	2

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

The Trustee-Manager held all of the issued ordinary shares of the Company in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

1. PCCW indirectly held these interests through its direct wholly-owned subsidiary, CAS Holding No. 1 Limited.

2. The Capital Group Companies, Inc. indirectly held these interests through its direct/indirect wholly-owned subsidiaries, based on the information that was publicly available to the Company. On February 20, 2013, The Capital Group Companies, Inc. through its controlled companies held 511,640,000 Share Stapled Units representing approximately 7.97% of the issued number of Share Stapled Units.

Save as disclosed above in this section, the Company and the Trustee-Manager have not been notified of any other persons (other than any Directors or Chief Executives) who had an interest or a short position in the Share Stapled Units or underlying Share Stapled Units, or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept pursuant to Section 336 of the SFO as at December 31, 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Trustee-Manager, the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Except for contracts amongst PCCW and its subsidiaries, no other contract of significance in relation to the Trustee-Manager's business to which the Trustee-Manager was a party and in which a Trustee-Manager Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2012, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Li Tzar Kai, Richard

Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. HWL is a company listed on the Main Board of the Stock Exchange and has its own management team separate from the HKT Limited Group. HWL and its subsidiaries (the "Hutchison Group") are involved in the business of ports and related services, property and hotels, retail, infrastructure, energy, telecommunications, and finance & investments and others. Among others, the Hutchison Group operates GSM dual-band and 3G mobile telecommunications services in Hong Kong and the Macau Special Administrative Region of the People's Republic of China and provides fixed-line telecommunications services in Hong Kong. As such, certain businesses of the Hutchison Group compete with certain aspects of the business of the HKT Limited Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. In view of the above, the Directors consider that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.

Lu Yimin and Li Fushen

Lu Yimin is an executive director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director and President of China United Network Communications Limited and a director and President of China United Network Communications Corporation Limited.

Li Fushen is an executive director and Chief Financial Officer of China Unicom (Hong Kong) Limited. He is a director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director of China United Network Communications Limited and a director and Senior Vice President of China United Network Communications Corporation Limited.

China Unicom (Hong Kong) Limited is a company listed on the New York Stock Exchange and the Main Board of the Stock Exchange. 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) is the ultimate parent company of China Unicom (Hong Kong) Limited and China United Network Communications Limited is a shareholder of China Unicom (Hong Kong) Limited. China United Network Communications Corporation Limited is a subsidiary of China Unicom (Hong Kong) Limited. China United Network Communications Limited is a company listed on Shanghai Stock Exchange. Save for Lu Yimin and Li Fushen, each of these companies has its own management team separate from the HKT Limited Group. These companies are involved in the business of provision of wireless, fixed-line, broadband, data and related value-added services and compete with certain aspects of the business of the HKT Limited Group. As Lu Yimin and Li Fushen are non-executive Directors who are not involved in the day-to-day management of the Trustee-Manager, the Company or any other member of the HKT Limited Group, the Directors consider that Lu Yimin and Li Fushen are not able to exert control or influence over the HKT Limited Group.

Each of Li Tzar Kai, Richard, Lu Yimin and Li Fushen has undertaken to the Trustee-Manager and the Company that they will continue to prominently disclose details of their interests as disclosed above and any change in details of such interests other than those disclosed in this annual report as required under Rule 8.10(2)(a) of the Listing Rules.

For identification only

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$21,000 (2011: HK$52,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

During the year ended December 31, 2012, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, members of the HKT Limited Group have entered into various transactions prior to the Listing Date with PCCW and/or its other subsidiaries (collectively, the "PCCW Group"). These transactions constituted continuing connected transactions (as defined in the Listing Rules) of the HKT Limited Group after the Listing Date because PCCW is the controlling holder of the Share Stapled Units in issue and therefore a connected person (as defined in the Listing Rules) of the HKT Trust and the Company. The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from strict compliance with the announcement requirement of the Listing Rules in respect of each of the transactions described in paragraphs (1) to (16) below. For the year ended December 31, 2012, the details of these transactions together with the relevant annual caps are set out as follows in accordance with the Listing Rules:

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group")

(1) The provision of carriage services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, and PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW, entered into a carriage services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television service to its customers. The agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(1) The provision of carriage services	200,121	256,500

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group") *(continued)*

(2) The provision of marketing and sales services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a marketing and sales services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service. This agreement is the reciprocal arrangement of the agreement referred to in paragraph (6) below. This agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(2) The provision of marketing and sales services	162,241	193,200

(3) The provision of internal (specialist telecom) services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into an internal (specialist telecom) services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialized support services that are integral to the operation of the Media Group's business. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(3) The provision of internal (specialist telecom) services	14,535	29,900

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group") *(continued)*

(4) Licensed access to floor space

Pursuant to a licence dated November 8, 2011, PCCW Media Limited has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of the telephone exchanges and other premises under private treaty grants granted by the Government of Hong Kong ("PTG Telephone Exchanges"). The licence is for a fixed term expiring on December 31, 2013, but can be terminated earlier by either party on written notice. Certain access rights have been terminated by mutual agreement on or before December 31, 2012. The licence fees paid by the Media Group are passed on by PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of PCCW, to Hong Kong Telecommunications (HKT) Limited. In effect, therefore, these licensing arrangements are akin to direct arrangements between Hong Kong Telecommunications (HKT) Limited and the Media Group. For the purposes of Chapter 14A of the Listing Rules, the licensing of access rights to these particular floor spaces to the Media Group is being treated as continuing connected transactions between Hong Kong Telecommunications (HKT) Limited and the Media Group. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(4) Licensed access to floor space	13,210	23,000

Services supplied by the Media Group to the HKT Limited Group

(5) Service packaging arrangements

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a service packaging agreement. The agreement comprises two aspects:

- a mutual commitment to package the HKT Limited Group's products and services and the Media Group's products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and

- a commitment by the Media Group to provide customers of the HKT Limited Group with certain content services and products, the composition of which is agreed between the parties from time to time.

The agreement is for a three-year term effective from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(5) Service packaging arrangements	545,460	553,300

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group *(continued)*

(6) The provision of marketing and sales services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a marketing and sales services agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media Limited agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group. The agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(6) The provision of marketing and sales services	16,634	17,300

(7) Content provision arrangements

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a content services agreement, pursuant to which PCCW Media Limited has a first right of supply and agreed to supply, procure supply or provide content management and production support services to the HKT Limited Group for distribution through its eye and mobile platforms. The agreement is for a term of three years effective from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(7) Content provision arrangements	305,720	434,800

(8) Directories publishing arrangements

On November 8, 2011, PCCW Media Limited and Hong Kong Telecommunications (HKT) Limited entered into a directories publishing agreement for a three-year term effective from January 1, 2011 to December 31, 2013.

As an overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format. The Media Group charges the HKT Limited Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(8) Directories publishing arrangements	–	2,000

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group *(continued)*

(9) Pay TV set-top-box access agreement

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into an agreement pursuant to which the HKT Limited Group pays the Media Group a monthly charge for the provision of 'user access' to certain services that are capable of being provided via the Media Group's set-top-boxes to customers subscribing for such services from the HKT Limited Group. The Media Group charges a market rate for such user-access rights. The agreement is for a three-year term effective from January 1, 2011 to December 31, 2013. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(9) Pay TV set-top-box access agreement	792	900

Services and floor space supplied by the HKT Limited Group to HKT Solutions Holdings Limited and its subsidiaries (collectively, the "Solutions Group")

(10) Provision of managed services and other telecommunications related services

On December 23, 2008, Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW, entered into a managed wavelength service agreement, which was supplemented by a supplemental agreement between the same parties entered into on November 8, 2011 (together, the "managed services agreement"). Pursuant to the managed services agreement, Hong Kong Telecommunications (HKT) Limited has agreed to provide certain connectivity services to PCCW Solutions Limited, linking one of the Solutions Group's data centres in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels. Hong Kong Telecommunications (HKT) Limited provides the various services on normal commercial terms.

The managed services agreement runs for an initial term that expires on December 31, 2013 (although PCCW Solutions Limited has a right to terminate the agreement at any time on 30 days' prior written notice).

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited entered into a telecommunications and other miscellaneous services agreement (the "telecommunications services agreement"). Pursuant to the telecommunications services agreement, Hong Kong Telecommunications (HKT) Limited and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms. The telecommunications services agreement is for a three-year term expiring on December 31, 2013.

The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(10) Provision of managed services and other telecommunications related services	75,900	81,064

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Solutions Holdings Limited and its subsidiaries (collectively, the "Solutions Group") *(continued)*

(11) Licensed access to floor space

Pursuant to a licence dated November 8, 2011, PCCW Solutions Limited has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of the PTG Telephone Exchanges. The licence is for a fixed term expiring on December 31, 2013, but can be terminated earlier by either party on written notice. Certain access rights have been terminated by mutual agreement on or before December 31, 2012. The licence fees paid by the Solutions Group are passed on by HKTC to Hong Kong Telecommunications (HKT) Limited. In effect, therefore, these licensing arrangements are akin to direct arrangements between Hong Kong Telecommunications (HKT) Limited and the Solutions Group. For the purposes of Chapter 14A of the Listing Rules, the licensing of access rights to these particular floor spaces to the Solutions Group is being treated as continuing connected transactions between Hong Kong Telecommunications (HKT) Limited and the Solutions Group. The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(11) Licensed access to floor space	11,473	20,925

Services supplied by the Solutions Group to the HKT Limited Group

(12) Solutions services

The Solutions Group provides the following customized solutions to the HKT Limited Group pursuant to the following agreements:

(a) Outsourcing and Managed Services ("OMS")

Pursuant to a bureau services agreement dated November 8, 2011 between PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited, PCCW Solutions Limited provides certain bureau services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates. These services include help desk services, problem management, change management, system and database support, IT security services, data centre services, backup management, service level management, disaster recovery and technical platform services. The agreement runs for an initial term that expires on December 31, 2013.

(b) Systems Solutions Development and Integration ("SSDI")

Pursuant to two agreements dated November 8, 2011 each between PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited, PCCW Solutions Limited provides the following services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates:

- certain application management services (such as application support and maintenance, production acceptance testing and application release management); and
- certain system development services (such as IT system design, development and implementation).

Each of these agreements runs for an initial term that expires on December 31, 2013.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(12) Solutions services *(continued)*

(c) BPO and Logistics ("BPOL")

Pursuant to nine agreements entered into and summarized below, Power Logistics Limited, a company in the Solutions Group, provides a range of different business processing, order fulfillment and logistical services to the HKT Limited Group.

Each of these agreements expires on December 31, 2013.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited, among other things: (a) manages a warehouse for mobile products; (b) provides stock management services; (c) packs and delivers mobile products; and (d) collects customer payments.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides logistics function, courier or delivery, storage and installation services for computer equipment to specified locations in Hong Kong.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain transportation services in Hong Kong.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain printing and lettershopping services for PCCW mobile prepaid SIM cards and plastic recharge vouchers.

- Agreement dated November 8, 2011 between Power Logistics Limited and HKT Services Limited:

  Power Logistics Limited provides certain back-up tape delivery services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain service-premium delivery services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain logistics services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides a service for the mass distribution of printed telephone directories.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain document imaging and data entry services.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(12) Solutions services *(continued)*

The approximate aggregate values and the annual caps for each of the categories (12)(a), (12)(b) and (12)(c) for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(12) (a) Bureau services agreement	324,500	532,050
OMS Total	324,500	532,050
(b) Application management services	70,032	70,049
System development services	44,983	45,000
SSDI Total	115,015	115,049
(c) Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mobile products	8,473	8,521
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for computer equipment	2,309	2,358
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding transportation services	2,379	2,398
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding printing and lettershopping services	1,678	1,680
Agreement between Power Logistics Limited and HKT Services Limited regarding back-up tape delivery services	24	25
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for service-premium delivery services	9	11
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for logistics services	113,492	113,586
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mass distribution of printed telephone directories	–	49
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding document imaging and data entry services	108	114
BPOL Total	128,472	128,742
Solutions Group Total	567,987	775,841

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(13) Sub-contracting agreement

On November 8, 2011, PCCW (Macau), Limitada ("PCCW Macau"), a company within the HKT Limited Group, and PCCW-HKT Technical Services Limited ("TSL"), an indirect wholly-owned subsidiary of PCCW, entered into a sub-contracting agreement. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as IT related systems within casinos. Rather than performing the work itself, PCCW Macau has sub-contracted the work to TSL. Accordingly, the work is carried out by TSL and all fees received in respect of the work are passed on by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees. The agreement is for a three-year term expiring on December 31, 2013.

The approximate aggregate values and the annual caps for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(13) Contracted service cost from PCCW Macau to TSL	49,900	50,397
Sub-contracting fees from TSL to PCCW Macau	1,400	2,520

(14) The provision of corporate shared services

On November 8, 2011, HKT Services Limited, a company within the HKT Limited Group, and PCCW Services Limited, an indirect wholly-owned subsidiary of PCCW, entered into a corporate shared services agreement, pursuant to which HKT Services Limited and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support.

The charges for these services are at cost. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013.

The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(14) The provision of corporate shared services	80,931	164,005

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

(15) The provision of marketing and promotion services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW-HKT Limited ("HKTL"), an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to provide publicity, promotion and branding services to HKTL, including producing "i.Shop", a magazine produced each month to advertise the products and services of the PCCW Group, and other promotional activities. The services are charged on a cost basis. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013.

The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(15) The provision of marketing and promotion services	43,018	50,400

(16) Licensing agreement (PCCW Tower)

PCCW Services Limited is the tenant in respect of certain space located at PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expires on December 31, 2014. Under and subject to the terms of the lease, PCCW Services Limited is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. On June 22, 2010, PCCW Services Limited and HKT Services Limited entered into an agreement (which was supplemented by a further agreement between the same parties entered into on November 8, 2011) pursuant to which HKT Services Limited has been granted a licence to occupy certain floor space for office use for an aggregate amount (inclusive of licence fees, rates, management fees and other charges) estimated at HK$8.7 million per month, equating to HK$103.9 million per annum. The licence expires on June 21, 2013.

The approximate aggregate value and the annual cap for the financial year ended December 31, 2012 are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2012 (HK$'000)	Annual cap for the financial year ended December 31, 2012 (HK$'000)
(16) Licensing agreement (PCCW Tower)	117,844	128,571

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (16) above entered into between the HKT Limited Group and the PCCW Group for the year ended December 31, 2012 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Annual Review of Continuing Connected Transactions *(continued)*

The Company Board and the Trustee-Manager Board, including the independent non-executive directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (16) above were entered into:

(i) in the ordinary and usual course of business of the HKT Limited Group;

(ii) either on normal commercial terms or on terms no less favourable to the HKT Limited Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

The Trustee-Manager Board has also confirmed that the charges paid or payable out of the Trust Property (as defined in the Trust Deed) of the HKT Trust to the Trustee-Manager are in accordance with the Trust Deed; and they are not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the HKT Trust or on the interests of all the holders of the Share Stapled Units as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 5 to the HKT Trust and HKT Limited consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, the relevant transactions comply with applicable requirements in accordance with the Listing Rules.

Details of the related party transactions of the Trustee-Manager during the year are set out in note 4 to the financial statements of the Trustee-Manager.

PUBLIC FLOAT

As at the date of this report, the HKT Trust (including the Trustee-Manager) and the Company have maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and the Trustee-Manager and within the knowledge of the Directors.

AUDITOR

The HKT Trust and HKT Limited consolidated financial statements for the financial year ended December 31, 2012 and the financial statements of the Trustee-Manager for the financial year ended December 31, 2012 have been audited by PricewaterhouseCoopers who will retire on conclusion of the forthcoming AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the HKT Trust, the Company and the Trustee-Manager is to be proposed at the forthcoming AGM.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 26, 2013

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE HOLDERS OF SHARE STAPLED UNITS OF HKT TRUST AND HKT LIMITED

(HKT Trust is a trust constituted under the laws of Hong Kong; HKT Limited is incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of HKT Trust, HKT Limited (the "Company") and its subsidiaries (together the "Group") and of HKT Limited and its subsidiaries (the "HKT Limited Group") set out on pages 63 to 148 (together referred to as the "HKT Trust and HKT Limited consolidated financial statements"). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise the consolidated balance sheet of the Group and of the HKT Limited Group and the balance sheet of HKT Limited as at December 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group and of the HKT Limited Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the HKT Trust and HKT Limited Consolidated Financial Statements

The directors of HKT Management Limited (the "Trustee-Manager") (in its capacity as the trustee-manager of HKT Trust) and the directors of the Company are responsible for the preparation of consolidated financial statements for HKT Trust and for HKT Limited that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

Opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the state of affairs of the Group and of the HKT Limited Group and HKT Limited as at December 31, 2012, and of the Group and HKT Limited Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 26, 2013

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2012

In HK$ million	Note(s)	2011	**2012**
Turnover	6 & 7	19,825	**21,081**
Cost of sales		(8,149)	**(9,027)**
General and administrative expenses		(8,510)	**(9,073)**
Other (losses)/gains, net	8	(28)	**18**
Finance costs, net	10	(1,504)	**(805)**
Share of results of jointly controlled companies	20	(2)	**(44)**
Share of results of an associate	19	(17)	**(35)**
Profit before income tax	9	1,615	**2,115**
Income tax	12(a)	(344)	**(455)**
Profit for the year		1,271	**1,660**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		1,221	**1,610**
Non-controlling interests		50	**50**
		1,271	**1,660**
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	26.84 cents	**25.09 cents**

The notes on pages 71 to 148 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

Details of the distributions/dividends payable to the holders of Share Stapled Units/shareholders attributable to the profit for the year are set out in note 13.

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

For the year ended December 31, 2012

In HK$ million	Note	2011	**2012**
Profit for the year		1,271	**1,660**
Other comprehensive income/(loss)			
Translation exchange differences:			
– exchange differences on translating foreign operations		11	**98**
Available-for-sale financial assets:			
– changes in fair value	21	24	**13**
Cash flow hedges:			
– effective portion of changes in fair value		16	**(54)**
– transfer from equity to consolidated income statement		(12)	**19**
Other comprehensive income for the year		39	**76**
Total comprehensive income for the year		1,310	**1,736**
Attributable to:			
– Holders of Share Stapled Units/shares of the Company		1,260	**1,686**
– Non-controlling interests		50	**50**
		1,310	**1,736**

The notes on pages 71 to 148 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2012

In HK$ million	2011		
	Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2011	19,351	162	19,513
Comprehensive income			
Profit for the year	1,221	50	1,271
Total other comprehensive income	39	–	39
Total comprehensive income for the year	1,260	50	1,310
Total contributions by and distributions to owners of the Company recognized in equity			
Capital contribution from the immediate holding company	2,005	–	2,005
Issue of ordinary and preference shares of the Company in exchange for the entire issued share capital of HKTGH	(1,144)	–	(1,144)
Transfer of business between related parties and the Groups in connection with the Reorganization	348	–	348
Issue of Share Stapled Units, net of issuance expenses	8,944	–	8,944
Distribution to equity owners	(8)	–	(8)
Dividend declared and paid to non-controlling shareholders of a subsidiary	–	(35)	(35)
Total contributions by and distributions to owners of the Company recognized in equity	10,145	(35)	10,110
At December 31, 2011	30,756	177	30,933

For the year ended December 31, 2012

In HK$ million		2012		
	Note(s)	Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2012		30,756	177	30,933
Comprehensive income				
Profit for the year		1,610	50	1,660
Total other comprehensive income		76	–	76
Total comprehensive income for the year		1,686	50	1,736
Total contributions by and distributions to owners of the Company recognized in equity				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		(7)	–	(7)
Employee share-based compensation		4	–	4
Distribution/Dividend paid in respect of the previous year	13 & 29	(216)	–	(216)
Interim distribution/dividend declared and paid in respect of the current year	13 & 29	(1,287)	–	(1,287)
Dividend declared and paid to non-controlling shareholders of a subsidiary		–	(41)	(41)
Increase in interests in subsidiaries	39	(2)	(3)	(5)
Total contributions by and distributions to owners of the Company recognized in equity		(1,508)	(44)	(1,552)
At December 31, 2012		30,934	183	31,117

The notes on pages 71 to 148 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED

As at December 31, 2012

In HK$ million	Note	2011	2012
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	14,253	**14,227**
Interests in leasehold land	16	316	**303**
Goodwill	17	35,893	**36,026**
Intangible assets	18	4,872	**4,573**
Interest in an associate	19	95	**200**
Interests in jointly controlled companies	20	577	**605**
Available-for-sale financial assets	21	72	**85**
Financial assets at fair value through profit or loss	22	–	**4**
Derivative financial instruments	26	275	**253**
Deferred income tax assets	30	3	**3**
Other non-current assets		498	**531**
		56,854	**56,810**
Current assets			
Prepayments, deposits and other current assets		2,273	**2,733**
Inventories	24(a)	1,076	**971**
Trade receivables, net	24(b)	2,541	**3,425**
Amounts due from related companies	5(c)	–	**25**
Derivative financial instruments	26	–	**4**
Financial assets at fair value through profit or loss	22	–	**4**
Income tax recoverable		68	**–**
Cash and cash equivalents	32(d)	2,226	**2,401**
		8,184	**9,563**
Current liabilities			
Short-term borrowings	24(c)	31	**8,462**
Trade payables	24(d)	1,532	**1,966**
Accruals and other payables		2,315	**2,539**
Carrier licence fee liabilities	31	190	**200**
Amounts due to related companies	5(c)	29	**135**
Amounts due to fellow subsidiaries and the immediate holding company	5(c)	1,282	**672**
Advances from customers		1,483	**1,684**
Current income tax liabilities		–	**347**
		6,862	**16,005**
Net current assets/(liabilities)		1,322	**(6,442)**
Total assets less current liabilities		58,176	**50,368**

CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED *(CONTINUED)*

As at December 31, 2012

In HK$ million	Note	2011	**2012**
Non-current liabilities			
Long-term borrowings	25	23,470	**15,644**
Deferred income tax liabilities	30	1,991	**1,831**
Deferred income		893	**989**
Carrier licence fee liabilities	31	838	**736**
Other long-term liabilities		51	**51**
		27,243	**19,251**
Net assets		30,933	**31,117**
CAPITAL AND RESERVES			
Share capital	28	6	**6**
Reserves	29	30,750	**30,928**
Equity attributable to holders of Share Stapled Units/shares of the Company		30,756	**30,934**
Non-controlling interests		177	**183**
Total equity		30,933	**31,117**

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 26, 2013 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 71 to 148 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

BALANCE SHEET OF HKT LIMITED

As at December 31, 2012

In HK$ million	Note	2011	**2012**
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	23	19,837	**20,004**
		19,837	**20,004**
Current assets			
Prepayments, deposits and other current assets		1	**1**
Amount due from a subsidiary	23(a)	8,339	**7,481**
Cash and cash equivalents	32(d)	434	**3**
		8,774	**7,485**
Current liabilities			
Accruals and other payables		53	**4**
Amounts due to subsidiaries	23(a)	–	**92**
Amount due to the ultimate holding company	5(c)	71	**–**
Amount due to the immediate holding company	5(c)	917	**–**
Current income tax liabilities		1	**7**
		1,042	**103**
Net current assets		7,732	**7,382**
Net assets		27,569	**27,386**
CAPITAL AND RESERVES			
Share capital	28	6	**6**
Reserves	28	27,563	**27,380**
Total equity		27,569	**27,386**

Approved and authorized for issue by the Boards on February 26, 2013 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 71 to 148 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2012

In HK$ million	Note	2011	**2012**
NET CASH GENERATED FROM OPERATING ACTIVITIES	32(a)	6,720	**7,024**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		19	**6**
Purchases of property, plant and equipment		(1,569)	**(1,906)**
Purchases of intangible assets		(1,415)	**(1,719)**
Net outflow of cash and cash equivalents in respect of additions upon business combinations	32(b)	–	**(227)**
Settlement of obligation assumed upon business combinations	32(b)	–	**(121)**
Acquisition of an associate		(41)	**–**
Loan to an associate		(71)	**(139)**
Loan to a jointly controlled company		(41)	**(71)**
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	39	–	**(5)**
NET CASH USED IN INVESTING ACTIVITIES		(3,118)	**(4,182)**
FINANCING ACTIVITIES			
New borrowings raised		6,251	**3,617**
Interest paid		(1,362)	**(735)**
Repayments of borrowings		(17,972)	**(3,075)**
Repayment of promissory note due to the immediate holding company		(227)	**(917)**
Increase in non-trade balance due to fellow subsidiaries	5(c)	–	**21**
Repayment of loans to fellow subsidiaries and the ultimate holding company		(2,475)	**–**
Distribution to equity owners		(8)	**–**
Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company		–	**(1,503)**
Dividend paid to non-controlling shareholders of a subsidiary		(35)	**(41)**
Proceeds from Share Stapled Units issued		9,302	**–**
Payments for issuance expenses		(305)	**(39)**
NET CASH USED IN FINANCING ACTIVITIES		(6,831)	**(2,672)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,229)	**170**
Exchange differences		(1)	**5**
CASH AND CASH EQUIVALENTS			
Beginning of year		5,456	**2,226**
End of year	32(d)	2,226	**2,401**

The notes on pages 71 to 148 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

1 BASIS OF PRESENTATION

In accordance with the Trust Deed (as defined below), HKT Trust (the "HKT Trust") and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2012 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the "Company") and its subsidiaries (together the "Group"), and the Group's interests in an associate and jointly controlled companies. The HKT Limited consolidated financial statements for the year ended December 31, 2012 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in an associate and jointly controlled companies, and the Company's balance sheet.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2012 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred as the "HKT Trust and HKT Limited consolidated financial statements".

The consolidated income statements, consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone balance sheet of HKT Limited, and the relevant explanatory information in notes 5(c), 23, 28, 32(d), and 34 where information specific to the Company are disclosed separately.

The Group and HKT Limited Group are referred as the "Groups".

2 GENERAL INFORMATION AND GROUP REORGANIZATION

a. General Information

The HKT Trust is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and the Company. Under the Trust Deed, the Trustee-Manager has been appointed as the trustee and manager of the HKT Trust. The scope of activities of the HKT Trust specified in the Trust Deed is essentially limited to investing in the Company and all the issued and paid-up ordinary shares of the Company are held by the HKT Trust. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") on June 14, 2011. The Company has established a principal place of business in Hong Kong at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Hong Kong Companies Ordinance, Cap. 32. The HKT Limited Group is principally engaged in the provision of fixed core, mobile, local and international telecommunications services, Internet access services and the sale and rental of telecommunications equipment primarily in Hong Kong, and also in Mainland China (the "PRC") and elsewhere in the Asia Pacific region (the "Telecommunications Business").

The share stapled units (the "Share Stapled Units") structure comprises: (a) a unit in the HKT Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company is linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the HKT Trust; and (c) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on November 29, 2011 (the "Listing").

The ultimate holding company of both the HKT Trust and the Company is PCCW Limited ("PCCW"), a company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States.

These financial statements are presented in millions of units of Hong Kong dollars (HK$ million), unless otherwise stated.

2 GENERAL INFORMATION AND GROUP REORGANIZATION *(CONTINUED)*

b. Group Reorganization

In preparation for the Listing, a group reorganization (the "Reorganization") as summarized below was implemented by PCCW and the Group in November 2011.

i. HKT Group Holdings Limited ("HKTGH"), which was an indirect wholly-owned subsidiary of PCCW, transferred businesses other than the Telecommunications Business to subsidiaries of PCCW through distribution of its interests in HKT Solutions Holdings Limited and thereby its subsidiaries (the "Solutions Group") and HKT Media Holdings Limited and thereby its subsidiaries (the "Media Group") to its immediate holding company, CAS Holding No. 1 Limited ("CAS No. 1");

ii. Certain entities and assets that constitute businesses managed by management of the Telecommunications Business were transferred from the Solutions Group and the Media Group to subsidiaries of HKTGH;

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

iv. The Company issued 4,363,361,192 ordinary shares and 4,363,361,192 preference shares, and a promissory note to CAS No. 1 in consideration of the transfer of all the shares in HKTGH held by CAS No. 1, representing 100% interest in HKTGH, to the Company. After the transfer, HKTGH became a direct wholly-owned subsidiary of the Company.

v. The Company and the HKT Trust jointly issued Share Stapled Units to CAS No. 1 in consideration of the transfer of the entire interest in the Company, to the Trustee-Manager in its capacity as the trustee and manager of the HKT Trust. The transfer was completed on November 24, 2011 and the Company became a wholly-owned subsidiary of the HKT Trust.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements

Immediately prior to and after the Reorganization, the Telecommunications Business was held and conducted by HKTGH and its subsidiaries. Pursuant to the Reorganization, the Telecommunications Business was transferred to the HKT Trust and the Company. The HKT Trust and the Company were not involved in any other business prior to the Reorganization and the transfer of the Telecommunications Business did not meet the definition of a business combination. The Reorganization was merely a reorganization of the Telecommunications Business with no change in the management and the ultimate owners of the Telecommunications Business. Therefore, the HKT Trust and HKT Limited consolidated financial statements are presented using the carrying values of the Telecommunications Business as reported under HKTGH as if the current structure of the Groups had been in existence throughout the entire period presented.

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

– financial assets at fair value through profit or loss (see note 3(k)(i));

– available-for-sale financial assets (see note 3(k)(ii)); and

– derivative financial instruments (see note 3(m)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the HKT Trust and HKT Limited consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

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

b. Statement of compliance

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have been prepared under the historical cost convention except for certain financial instruments which are stated at fair values, as explained in the significant accounting policies set out below.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2012, but have no material effect on the Groups' results and financial position for the current and prior accounting periods.

- HKFRS 1 (Amendment), Severe hyperinflation and removal of fixed dates for first-time adopters.
- HKFRS 7 (Amendment), Disclosures – Transfers of financial assets.
- HKAS 12 (Amendment), Deferred tax – Recovery of underlying assets.

The Groups have not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 40.

c. Subsidiaries and non-controlling interests

Subsidiaries are entities controlled directly or indirectly by the Groups. Control exists when the Groups have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the HKT Trust and HKT Limited consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Groups recognize any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 3(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 38).

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Groups, whether directly or indirectly through subsidiaries, and in respect of which the Groups have not agreed any additional terms with the holders of those interests which would result in the Groups as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented within equity in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the holders of the Share Stapled Units and the shares of the Company. Non-controlling interests in the results of the Groups are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between non-controlling interests and the holders of the Share Stapled Units and the shares of the Company.

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

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

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

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment of the asset transferred.

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

d. Associates

An associate is an entity in which the Groups have significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions.

Interest in an associate is accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and is initially recorded at cost. The Groups' interest in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the associates' net assets. The consolidated income statement includes the Groups' share of post-acquisition, post-tax results of the associate and any impairment losses for the year. The consolidated statement of comprehensive income includes the Groups' share of the post-acquisition post-tax items of the associate's other comprehensive income.

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

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

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

In the consolidated balance sheet, interest in an associate is stated at cost less impairment losses (see note 3(l)(ii)). The results of the associate are accounted for by the Groups on the basis of dividends received and receivable.

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

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

e. Jointly controlled companies

A jointly controlled company is an entity which operates under a contractual arrangement between the Groups and other parties, where the contractual arrangement establishes that the Groups and one or more of the other parties share joint control over the economic activity of the entity. The Groups have made investments in jointly controlled companies in the PRC in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts.

Investments made by means of joint venture structures where the Groups control the composition of the Boards or equivalent governing body and/or are in a position to exercise control over the financial and operating policies of the jointly controlled companies are accounted for as subsidiaries.

Investments in jointly controlled companies are accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and are initially recorded at cost. The Groups' investment in jointly controlled companies includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the jointly controlled companies' net assets. The consolidated income statement includes the Groups' share of post-acquisition, post-tax results of the jointly controlled companies and any impairment losses for the year. The consolidated statement of comprehensive income include the Groups' share of the post-acquisition, post-tax items of the jointly controlled companies' other comprehensive income.

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

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

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

f. Gaining or losing control or significant influence

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

g. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 3(l)(ii)):

– buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 3(h)); and

– other items of plant and equipment.

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

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

g. Property, plant and equipment *(continued)*

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

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

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

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 12 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at each balance sheet date.

h. Leased assets

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

i. Classification of assets leased to the Groups

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

ii. Assets leased out under operating leases

Where the Groups leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Groups' depreciation policies, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(l)(ii). Revenue arising from operating leases is recognized in accordance with the Groups' revenue recognition policies, as set out in note 3(u)(iii).

iii. Operating lease charges

Where the Groups have the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated in the consolidated balance sheet as "Interests in leasehold land" and is amortized to the consolidated income statement on a straight-line basis over the period of the lease term.

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

i. Goodwill

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

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 3(l)(ii)). In respect of the associate and jointly controlled companies, the carrying amount of goodwill is included in the carrying amount of the interests in an associate and jointly controlled companies respectively.

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

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Groups and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the consolidated income statement.

ii. Carrier licences

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

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

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

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

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

iii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences, intellectual property, market knowledge and trademarks are capitalized as "intangible assets" if it is identifiable and the entity has power to obtain future economic benefits flowing from the underlying resource.

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

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

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

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 7 years.

iv. Other intangible assets

Other intangible assets that are acquired by the Groups are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(l)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

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

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

The assets' useful lives and their amortization method are reviewed annually.

k. Investments in equity securities

The Groups classify its investments in equity securities, other than interests in subsidiaries and interests in an associate and jointly controlled companies, as (i) financial assets at fair value through profit or loss, or (ii) available-for-sale financial assets.

Investments in equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

This category comprises financial assets designated as fair value through profit or loss at inception.

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred.

k. Investments in equity securities *(continued)*

i. Financial assets at fair value through profit or loss *(continued)*

At each balance sheet date, the fair value is re-measured based on their current bid prices in an active market, with any unrealized holding gains or losses arising from the changes in fair value being recognized in 'other (losses)/gains, net' in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 3(u)(v) and 3(u)(vii) respectively. Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Groups intend to dispose of the investment within 12 months from the balance sheet date.

At each balance sheet date, the fair value of available-for-sale financial assets is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 3(u)(vii). When the investments are derecognized or impaired (see note 3(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

Investments in equity securities are recognized or derecognized on the date the Groups commit to purchase or sell the investments or they expire.

l. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries and interests in an associate and jointly controlled companies: see note 3(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or

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

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

l. Impairment of assets *(continued)*

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

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

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized directly in the available-for-sale financial assets reserve under equity is removed from equity and is recognized in the consolidated income statement. The amount of the cumulative loss that is recognized in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement.

  Impairment losses recognized in the consolidated income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Groups are satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the consolidated income statement.

ii. Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– interests in an associate and jointly controlled companies;

– goodwill; and

– investments in subsidiaries (at Company level).

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

l. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

  An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated income statement in the period in which the reversals are recognized.

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Groups are required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(l)(i) and 3(l)(ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

m. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(n)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

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

n. Hedging

i. Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the consolidated income statement within "Finance costs, net", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated income statement over the residual period to maturity.

ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the consolidated income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated income statement.

o. Inventories

Inventories consist of trading inventories, work-in-progress and consumable inventories.

Trading inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress is stated at the lower of cost, which comprises labor, materials and overheads where appropriate, and the net realizable value.

Consumable inventories, held for use in the maintenance and expansion of the Groups' telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

p. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(l)(i)).

q. Cash and cash equivalents

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

r. Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

s. Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

t. Provisions and contingent liabilities

Provisions are recognized when (i) the Groups have a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u. Revenue recognition

Provided it is probable that the economic benefits will flow to the Groups and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the consolidated income statement as follows:

i. Telecommunications and other services

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

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

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

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

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

u. Revenue recognition *(continued)*

ii. Sales of goods

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

iii. Rental income from operating leases

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

iv. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

v. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

vi. Commission income

Commission income is recognized when entitlement to the income is ascertained.

vii. Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

v. Borrowing costs

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

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

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

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

w. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous year.

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

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

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Groups have the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Groups intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

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

x. Employee benefits

i. Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Retirement benefits

The Groups operate defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies in the Groups and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

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

iii. Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profit).

The boards of directors of the Trustee-Manager and the Company may also grant Share Stapled Units to employees at nil consideration under the Company's Share Stapled Units award schemes, under which the awarded shares are either newly issued at par value (the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "HKT Share Stapled Units Purchase Scheme"). The cost of Share Stapled Units purchased from the open market is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the shares at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity as treasury stock is transferred to the employee share-based compensation reserve.

Share Stapled Units granted to employees of the Groups by the principal holder of Share Stapled Units are accounted for in accordance with the same policy for the awarded Share Stapled Units under the Share Stapled Units award schemes as described above. The fair value of the Share Stapled Units granted is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period.

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

x. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

For the PCCW Subscription Scheme, it is accounted for as equity-settled share-based payment. The fair value of the awarded PCCW shares is measured by the quoted market price of PCCW shares at grant date. The fair value of the employee services received in exchange for the grant of PCCW shares is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding increase in the employee share-based compensation reserve under equity.

For the PCCW Purchase Scheme, it is accounted for as cash-settled share-based payment. The fair value of the awarded PCCW shares represents the quoted market price of PCCW shares purchased from the open market and is recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding obligation being recognized.

Shares of PCCW granted to employees of the Groups by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under share award schemes as described above. The fair value of the shares granted by principal shareholder is measured by the quoted market price of the PCCW shares at grant date and is charged to the consolidated income statement over the respective vesting period, with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation under equity.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms.

y. Translation of foreign currencies

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

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

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

y. Translation of foreign currencies *(continued)*

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

z. Related parties

For the purposes of the HKT Trust and HKT Limited consolidated financial statements, a party is considered to be related to the Groups if:

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

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

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

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

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

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

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

aa. Segment reporting

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 17 and 34 contains information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are discussed below:

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

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

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

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

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

ii. Impairment of assets (other than investments in equity securities and other receivables)

At each balance sheet date, the Groups review internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interests in an associate and jointly controlled companies;
- goodwill; and
- investments in subsidiaries (at Company level).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

If an indication of impairment is identified, such information is further subject to an exercise that requires the Groups to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Groups' assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Groups may perform such assessment utilizing internal resources or the Groups may engage external advisors to counsel the Groups in making this assessment. Regardless of the resources utilized, the Groups are required to make many assumptions to make this assessment, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

iii. Revenue recognition

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

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

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

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

iv. Deferred income tax

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

v. Current income tax

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

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

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

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

vii. Recognition of intangible asset – carrier licences

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

5 RELATED PARTY TRANSACTIONS

PCCW is the controlling holder of Share Stapled Units. CAS No. 1 and PCCW are the immediate and ultimate holding companies of the Company respectively.

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

a. Continuing transactions

In HK$ million	The Groups	
	2011	**2012**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	234	**141**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	254	**126**
Telecommunications service fees received or receivable from related companies	43	**70**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to related companies	292	**315**
Telecommunications service fees, IT and logistics charge, management fee and other costs recharge received or receivable from fellow subsidiaries	608	**627**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to fellow subsidiaries	1,587	**1,617**
	3,018	**2,896**

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

b. Discontinuing transactions

In HK$ million	The Groups 2011	**2012**
Telecommunications service fees, IT and logistics charge, consultancy fee, management fee and other costs recharge received or receivable from fellow subsidiaries	239	–
Telecommunications service fees received or receivable from a fellow subsidiary	93	–
Acquisition of a jointly controlled company from the ultimate holding company *(note (i))*	71	–
	403	–

i. During the year ended December 31, 2011, PCCW transferred Pacific Century Cable Holdings Limited, a company within the PCCW Group, and thereby its 50% interest in Reach Ltd., to the Groups. The consideration for this transfer of HK$70.6 million, being an amount equal to the fair market value of Pacific Century Cable Holdings Limited, was settled on the basis of an inter-company balance left outstanding. Reach Ltd. is a 50/50 joint venture formed in 2000 between PCCW and Telstra Corporation Limited ("Telstra") and provides international communications infrastructure services, principally to PCCW and Telstra.

ii. During the year ended December 31, 2011, in addition to the above, the Groups, Telstra and a jointly controlled entity (the "JV") completed certain transactions which resulted in the transfer of the majority of the JV's assets, business platforms and operations to the Groups and Telstra. The Groups received assets and businesses from the JV valued at approximately HK$644 million. The consideration was settled in part by a credit note received from the JV in the sum of approximately HK$491 million and in part by offsetting against the inter-company balance between the Groups and PCCW. As a result, the Groups recorded credits to revenue, cost of sales, operating expenses, and an increase in amounts due to the ultimate holding company and fellow subsidiaries in the amounts of approximately HK$339 million, HK$97 million, HK$29 million, and HK$179 million, respectively.

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

c. Balances with the holding companies, related companies and fellow subsidiaries

The balances included in the net amounts due to the holding companies and fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2011 and 2012.

The balances included in the amounts due to related companies are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2011 and 2012.

In HK$ million	The Groups		The Company	
	2011	**2012**	2011	**2012**
Amounts due to the holding companies and fellow subsidiaries				
– Trade balance	(365)	**(651)**	–	–
– Non-trade balance	(917)	**(21)**	(988)	–
	(1,282)	**(672)**	(988)	–
Amounts due from related companies				
– Trade balance	–	**25**	–	–
Amounts due to related companies				
– Trade balance	(29)	**(135)**	–	–
	(29)	**(110)**	–	–

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

d. Details of key management compensation

In HK$ million	The Groups 2011	**2012**
Salaries and other short-term employee benefits	15	**39**
Post-employment benefits	–	**2**
	15	**41**

6 TURNOVER

In HK$ million	The Groups 2011	**2012**
Telecommunications and other services revenue	17,025	**18,439**
Sales of goods	2,776	**2,610**
Rental income	24	**32**
	19,825	**21,081**

7 SEGMENT INFORMATION

The CODM is the Groups' senior executive management collectively. The CODM reviews the Groups' internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

- Telecommunications Services ("TSS") is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical, maintenance and subcontracting services and teleservices businesses.

- Mobile includes the Groups' mobile telecommunications businesses in Hong Kong.

- Other businesses of the Groups primarily comprise Unihub China Information Technology Company Limited, which provides network integration and related services to telecommunications operators in the PRC.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interest in an associate and jointly controlled companies and the Groups' share of results of an associate and jointly controlled companies.

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

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	The Groups 2011 TSS	Mobile	Other businesses	Eliminations	Total
Revenue					
External revenue	17,048	1,967	810	–	19,825
Inter-segment revenue	247	–	–	(247)	–
Total revenue	17,295	1,967	810	(247)	19,825
Results					
EBITDA	7,005	510	(104)	–	7,411
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,341	198	61	–	1,600

In HK$ million	The Groups **2012** **TSS**	**Mobile**	**Other businesses**	**Eliminations**	**Total**
Revenue					
External revenue	**17,931**	**2,466**	**684**	**–**	**21,081**
Inter-segment revenue	**435**	**–**	**–**	**(435)**	**–**
Total revenue	**18,366**	**2,466**	**684**	**(435)**	**21,081**
Results					
EBITDA	**7,126**	**736**	**(193)**	**–**	**7,669**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**1,544**	**313**	**88**	**–**	**1,945**

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	The Groups 2011	**2012**
Total segment EBITDA	7,411	**7,669**
Gain on disposals of property, plant and equipment, net	5	**–**
Depreciation and amortization	(4,250)	**(4,688)**
Other (losses)/gains, net	(28)	**18**
Finance costs, net	(1,504)	**(805)**
Share of results of jointly controlled companies	(2)	**(44)**
Share of results of an associate	(17)	**(35)**
Profit before income tax	1,615	**2,115**

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

In HK$ million	The Groups 2011	**2012**
Hong Kong	16,664	**17,863**
The PRC (excluding Hong Kong) and Taiwan	1,477	**1,459**
Others	1,684	**1,759**
	19,825	**21,081**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$53,429 million as at December 31, 2012 (2011: HK$56,504 million). The total of these non-current assets located in other countries are HK$3,036 million as at December 31, 2012 (2011: HK$2,806 million).

8 OTHER (LOSSES)/GAINS, NET

In HK$ million	The Groups 2011	**2012**
Net gain on cash flow hedging instruments transferred from equity	1	**19**
Impairment loss on interest in a jointly controlled company	(16)	**–**
Others	(13)	**(1)**
	(28)	**18**

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	The Groups 2011	**2012**
Salaries, bonuses and other benefits	1,439	**1,416**
Share-based compensation expenses	–	**8**
Retirement costs for staff under defined contribution retirement schemes	181	**198**
	1,620	**1,622**

9 PROFIT BEFORE INCOME TAX *(CONTINUED)*

b. Other items

In HK$ million	The Groups 2011	**2012**
Crediting:		
Gross rental income	24	**32**
Gain on disposals of property, plant and equipment, net	5	**–**
Charging:		
Impairment loss on doubtful debts	125	**138**
Provision for inventory obsolescence	7	**5**
Depreciation of property, plant and equipment	2,252	**2,229**
Operating costs of property, plant and equipment, net	436	**532**
Amortization of land lease premium	13	**13**
Amortization of intangible assets	1,985	**2,446**
Cost of inventories sold	2,871	**2,547**
Cost of sales, excluding inventories sold	5,278	**6,480**
Exchange losses/(gains), net	7	**(26)**
Cash flow hedges: transferred from equity	(11)	**37**
Auditor's remuneration	10	**11**
Operating lease rental		
– equipment	14	**54**
– other assets (including property rentals)		
– recorded under general and administrative expenses	509	**665**
– recorded under cost of sales	86	**79**

10 FINANCE COSTS, NET

In HK$ million	The Groups 2011	**2012**
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	(458)	**(265)**
Other borrowings wholly repayable within 5 years	(1,026)	**(525)**
Notional accretion on carrier licence fee liabilities	(74)	**(68)**
Other borrowing costs	(12)	**(6)**
Cash flow hedges: transferred from equity	(1)	**(1)**
Fair value gains on derivative financial instruments on fair value hedges	198	**38**
Fair value adjustment of borrowings attributable to interest rate risk	(202)	**(42)**
	(1,575)	**(869)**
Interest capitalized in property, plant and equipment	31	**39**
Total finance costs	(1,544)	**(830)**
Interest income		
Interest income on short-term bank deposits	40	**25**
Finance costs, net	(1,504)	**(805)**

The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 4.54% to 4.70% for the year ended December 31, 2012 (2011: 4.43% to 6.22%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

In HK$ million	The Groups 2011				
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions	Total
Executive directors					
Li Tzar Kai, Richard[2]	–	–	–	–	–
Alexander Anthony Arena[3]	–	1.67[5]	7.50	0.13	9.30
Hui Hon Hing, Susanna[4]	–	0.46[5]	5.50	0.04	6.00
Non-executive directors					
Peter Anthony Allen[6]	–	–	–	–	–
Chung Cho Yee, Mico[6]	0.02	–	–	–	0.02
Lu Yimin[6]	0.02[7]	–	–	–	0.02
Li Fushen[6]	0.02[8]	–	–	–	0.02
Independent non-executive directors					
Sir Rogerio (Roger) Hyndman Lobo[9]	0.03[10]	–	–	–	0.03
Professor Chang Hsin Kang[9]	0.02	–	–	–	0.02
The Hon Raymond George Hardenbergh Seitz[9]	0.03[11]	–	–	–	0.03
Sunil Varma[9]	0.03[12]	–	–	–	0.03
	0.17	2.13	13.00	0.17	15.47

Notes:

1 Bonus amounts shown above represent the portion of 2011 bonuses that were paid in 2011.

2 Appointed and designated as an executive director and the Executive Chairman of the Company and the Trustee-Manager with effect from November 11, 2011.

3 Appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. Mr. Alexander Anthony Arena was designated as an executive director and the Group Managing Director of the Company and the Trustee-Manager with effect from November 11, 2011.

4 Appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. Ms. Hui Hon Hing, Susanna was designated as an executive director of the Company and the Trustee-Manager with effect from November 11, 2011.

5 Excludes remuneration for duties performed for related companies.

6 Appointed and designated as a non-executive director of the Company and the Trustee-Manager with effect from November 11, 2011.

7 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr. Lu Yimin and China United Network Communications Group Company Limited.

8 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr. Li Fushen and China United Network Communications Group Company Limited.

9 Appointed and designated as an independent non-executive director of the Company and the Trustee-Manager with effect from November 11, 2011.

10 Includes HK$9,493 fee as Chairman of Nomination Committee.

11 Includes HK$9,493 fee as Chairman of Remuneration Committee.

12 Includes HK$9,493 fee as Chairman of Audit Committee.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

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

In HK$ million	The Groups 2012				
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions	Total
Executive directors					
Li Tzar Kai, Richard	–	–	–	–	–
Alexander Anthony Arena	–	18.75[2]	10.69	1.41	30.85
Hui Hon Hing, Susanna	–	5.23	2.32	0.40	7.95
Non-executive directors					
Peter Anthony Allen	–	–	–	–	–
Chung Cho Yee, Mico	0.21	–	–	–	0.21
Lu Yimin	0.21[3]	–	–	–	0.21
Li Fushen	0.21[4]	–	–	–	0.21
Independent non-executive directors					
Sir Rogerio (Roger) Hyndman Lobo	0.32[5]	–	–	–	0.32
Professor Chang Hsin Kang	0.21	–	–	–	0.21
The Hon Raymond George Hardenbergh Seitz	0.32[6]	0.53	–	–	0.85
Sunil Varma	0.32[7]	–	–	–	0.32
	1.80	24.51	13.01	1.81	41.13

Notes:

1 Bonus amounts shown above represent the portion of 2011 bonuses that were paid in 2012.

2 Excludes remuneration for duties performed for related companies.

3 Fees receivable as a non-executive director in 2012 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr. Lu Yimin and China United Network Communications Group Company Limited.

4 Fee receivable as a non-executive director in 2012 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr. Li Fushen and China United Network Communications Group Company Limited.

5 Includes HK$105,000 fee as Chairman of Nomination Committee.

6 Includes HK$105,000 fee as Chairman of Remuneration Committee.

7 Includes HK$105,000 fee as Chairman of Audit Committee.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2011: two) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2011: three) non-director individuals for the year ended December 31, 2012 were as follows:

In HK$ million	The Groups 2011	**2012**
Salaries, allowances and benefits in kind	10.47	**10.60**
Bonuses	6.39	**2.93**
Retirement scheme contributions	1.05	**1.10**
Share-based compensation	–	**0.32**
	17.91	**14.95**

ii. The emoluments of the three (2011: three) non-director individuals for the year ended December 31, 2012 are within the following emolument ranges:

	The Groups **Number of individuals** 2011	**2012**
HK$4,500,001 – HK$5,000,000	–	**2**
HK$5,000,001 – HK$5,500,000	1	**1**
HK$5,500,001 – HK$6,000,000	1	**–**
HK$6,500,001 – HK$7,000,000	1	**–**
	3	**3**

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Groups 2011	**2012**
Hong Kong profits tax		
– provision for current year	390	**579**
– overprovision for prior year	–	**(3)**
Overseas tax		
– provision for current year	44	**41**
Movement of deferred income tax (note 30(a))	(90)	**(162)**
	344	**455**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

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

12 INCOME TAX *(CONTINUED)*

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

In HK$ million	The Groups 2011	**2012**
Profit before income tax	1,615	**2,115**
Notional tax on profit before income tax, calculated at applicable tax rate	266	**349**
Income not subject to tax	(7)	**(1)**
Expenses not deductible for tax purposes	9	**3**
Tax losses not recognized	66	**74**
Utilization of previously unrecognized tax losses	(37)	**(21)**
Loss not deductible for an associate and jointly controlled companies	3	**13**
Overprovision in respect of prior years	–	**(3)**
Current tax provision for overseas operations	44	**41**
Income tax expense	344	**455**

13 DISTRIBUTIONS/DIVIDENDS

In HK$ million	2011	**2012**
Interim distribution/dividend declared and paid in respect of current year of 20.06 HK cents (2011: nil) per Share Stapled Unit/ordinary share of the Company	–	**1,287**
Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 3.36 HK cents (2011: nil) per Share Stapled Unit/ordinary share of the Company	–	**216**
	–	**1,503**
Final distribution/dividend proposed after the balance sheet date of 21.58 HK cents (2011: 3.36 HK cents) per Share Stapled Unit/ordinary share of the Company	216	**1,385**

The final distribution/dividend proposed after the balance sheet date has not been recognized as a liability as at the balance sheet date.

14 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

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

	2011	**2012**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	1,221	**1,610**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Shared Stapled Unit/share of the Company	4,549,022,496	**6,415,937,641**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Shared Stapled Unit/share of the Company	4,549,022,496	**6,415,937,641**

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Groups 2011					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,077	20,065	17,948	10,698	320	50,108
Additions	–	274	339	207	780	1,600
Acquisition of assets from the JV	–	–	629	–	–	629
Transfers	–	31	90	102	(460)	(237)
Disposals	–	(1,346)	(62)	(201)	–	(1,609)
Exchange differences	–	–	(20)	(8)	–	(28)
End of year	1,077	19,024	18,924	10,798	640	50,463
Accumulated depreciation and impairment						
Beginning of year	511	16,144	11,035	8,096	–	35,786
Charge for the year	20	962	824	446	–	2,252
Transfers	–	(208)	–	–	–	(208)
Disposals	–	(1,342)	(53)	(198)	–	(1,593)
Exchange differences	–	–	(14)	(13)	–	(27)
End of year	531	15,556	11,792	8,331	–	36,210
Net book value						
End of year	546	3,468	7,132	2,467	640	14,253
Beginning of year	566	3,921	6,913	2,602	320	14,322

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Groups 2012					
	Buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,077**	**19,024**	**18,924**	**10,798**	**640**	**50,463**
Additions	**–**	**232**	**174**	**260**	**1,279**	**1,945**
Additions upon business combinations *(note 38)*	**–**	**41**	**121**	**16**	**–**	**178**
Transfers	**–**	**171**	**118**	**87**	**(425)**	**(49)**
Disposals	**–**	**(542)**	**(11)**	**(101)**	**–**	**(654)**
Exchange differences	**–**	**57**	**81**	**4**	**–**	**142**
End of year	**1,077**	**18,983**	**19,407**	**11,064**	**1,494**	**52,025**
Accumulated depreciation and impairment						
Beginning of year	**531**	**15,556**	**11,792**	**8,331**	**–**	**36,210**
Charge for the year	**20**	**922**	**835**	**452**	**–**	**2,229**
Transfers	**–**	**(49)**	**–**	**–**	**–**	**(49)**
Disposals	**–**	**(541)**	**(11)**	**(96)**	**–**	**(648)**
Exchange differences	**–**	**52**	**6**	**(2)**	**–**	**56**
End of year	**551**	**15,940**	**12,622**	**8,685**	**–**	**37,798**
Net book value						
End of year	**526**	**3,043**	**6,785**	**2,379**	**1,494**	**14,227**
Beginning of year	**546**	**3,468**	**7,132**	**2,467**	**640**	**14,253**

Certain property, plant and equipment with aggregate carrying values of approximately HK$23 million as at December 31, 2011 were pledged as security for bank borrowings of the Groups. Please refer to note 37 for details of the Groups' bank loan facilities. No property, plant and equipment were pledged as at December 31, 2012.

The carrying amount of buildings of the Groups are analysed as follows:

In HK$ million	The Groups 2011	**2012**
Held in Hong Kong		
On long-term lease (over 50 years)	39	**37**
On medium-term lease (10-50 years)	507	**489**
	546	**526**

16 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Groups 2011	2012
Cost		
Beginning of year and end of year	536	**536**
Accumulated amortization		
Beginning of year	207	**220**
Charge for the year	13	**13**
End of year	220	**233**
Net book value		
End of year	316	**303**
Beginning of year	329	**316**

The carrying amount of interests in leasehold land of the Groups is analyzed as follows:

In HK$ million	The Groups 2011	2012
Held in Hong Kong		
On long-term lease (over 50 years)	31	**29**
On medium-term lease (10-50 years)	285	**274**
	316	**303**

17 GOODWILL

In HK$ million	The Groups 2011	2012
Cost		
Beginning of year	35,892	**35,893**
Additions upon business combinations *(note 38)*	–	**129**
Exchange differences	1	**4**
End of year	35,893	**36,026**

17 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the HKT Trust and the Company's CGUs identified according to operating segment as follows:

In HK$ million	The Groups 2011	**2012**
TSS		
– Local telephony and data services	30,830	**30,830**
– Global	997	**1,126**
– Others	507	**511**
Mobile	3,356	**3,356**
Other businesses	203	**203**
Total	35,893	**36,026**

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2012 are as follows:

	The Groups					
	2011			**2012**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
TSS						
– Local telephony and data services	72%	1%	9%	**70%**	**1%**	**8%**
– Global	22%	3%	11%	**15%**	**3%**	**10%**
Mobile	60%	2%	15%	**61%**	**2%**	**14%**

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

There was no indication of impairment arising from review on goodwill as at October 31, 2012.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

18 INTANGIBLE ASSETS

In HK$ million	The Groups 2011					
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Others	Total
Cost						
Beginning of year	459	1,395	1,433	5,511	12	8,810
Additions	–	38	1,259	–	–	1,297
Acquisition of assets from a JV	–	–	15	–	–	15
Write-off	–	–	(733)	(471)	–	(1,204)
End of year	459	1,433	1,974	5,040	12	8,918
Accumulated amortization						
Beginning of year	50	248	722	2,234	11	3,265
Charge for the period *(note (a))*	23	153	980	828	1	1,985
Write-off	–	–	(733)	(471)	–	(1,204)
End of year	73	401	969	2,591	12	4,046
Net book value						
End of year	386	1,032	1,005	2,449	–	4,872
Beginning of year	409	1,147	711	3,277	1	5,545

In HK$ million	The Groups **2012**						
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**459**	**1,433**	**1,974**	**5,040**	**–**	**12**	**8,918**
Additions	**–**	**68**	**1,490**	**–**	**342**	**128**	**2,028**
Additions upon business combinations *(note 38)*	**71**	**–**	**–**	**47**	**–**	**–**	**118**
Write-off	**–**	**–**	**(848)**	**–**	**–**	**(140)**	**(988)**
Exchange differences	**–**	**–**	**1**	**–**	**–**	**–**	**1**
End of year	**530**	**1,501**	**2,617**	**5,087**	**342**	**–**	**10,077**
Accumulated amortization							
Beginning of year	**73**	**401**	**969**	**2,591**	**–**	**12**	**4,046**
Charge for the year *(note (a))*	**23**	**203**	**1,250**	**819**	**23**	**128**	**2,446**
Write-off	**–**	**–**	**(848)**	**–**	**–**	**(140)**	**(988)**
End of year	**96**	**604**	**1,371**	**3,410**	**23**	**–**	**5,504**
Net book value							
End of year	**434**	**897**	**1,246**	**1,677**	**319**	**–**	**4,573**
Beginning of year	**386**	**1,032**	**1,005**	**2,449**	**–**	**–**	**4,872**

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

19 INTEREST IN AN ASSOCIATE

In HK$ million	The Groups 2011	2012
Share of net assets of an associate	24	–
Loans due from an associate, net	71	**200**
	95	**200**
Investments at cost, unlisted	41	**41**

The loans due from an associate comprised two unsecured loans with fixed terms of repayment of approximately HK$31 million (2011: HK$43 million) repayable in 1 to 2 years bears interest at a fixed rate of 5% (2011: 5%) per annum and approximately HK$43 million (2011: HK$28 million) repayable in 1 year bears interest at a fixed rate of 5% (2011: 6.5%) per annum, certain secured loans with fixed terms of repayment of approximately HK$12 million (2011: nil) repayable in 1 year bears interest at a fixed rate of 6.5% per annum and approximately HK$124 million (2011: nil) repayable in 1 year bears interest at a fixed rate of 6% per annum.

As at December 31, 2012, particulars of the associate of the Groups are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of registered capital	Interest held by the Company Directly	Indirectly
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited#)	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	35%

Unofficial company name

Summarized unaudited financial information of the associate of the Groups are as follows:

In HK$ million	The Groups 2011	2012
Total assets	176	**213**
Total liabilities	(174)	**(309)**
Turnover	82	**405**
Loss after income tax	(47)	**(99)**

During the year ended December 31, 2012, the Groups did not have any unrecognized share of losses of an associate (2011: nil). As at December 31, 2012, the accumulated share of loss of the associate unrecognized by the Groups were nil (2011: nil).

20 INTERESTS IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Groups 2011	2012
Share of net assets of jointly controlled companies	276	**233**
Loan due from a jointly controlled company (note (a))	301	**372**
	577	**605**

a. Loan to a jointly controlled company bears interests at HIBOR plus 3% per annum for the year (2011: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

20 INTERESTS IN JOINTLY CONTROLLED COMPANIES *(CONTINUED)*

b. Particulars of the jointly controlled companies of the Groups are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company 2012 Directly	Interest held by the Company 2012 Indirectly
China Netcom Broadband Corporation Limited	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	–	**50%**
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	**50%**
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	**50%**

Summarized unaudited financial information of the Groups' interests in jointly controlled companies is as follows:

In HK$ million	The Groups 2011	The Groups **2012**
Non-current assets	798	**809**
Current assets	229	**177**
Total assets	1,027	**986**
Non-current liabilities	(346)	**(423)**
Current liabilities	(298)	**(235)**
Net assets	383	**328**
Non-controlling interests	(107)	**(95)**
Equity attributable to holders of Share Stapled Units/shares of the Company	276	**233**

In HK$ million	The Groups 2011	The Groups **2012**
Turnover	289	**368**
Expenses	(272)	**(347)**
Profit before income tax	17	**21**
Income tax	(6)	**(6)**
Profit after income tax	11	**15**
Non-controlling interests	(13)	**(12)**
(Loss)/Profit for the year attributable to holders of Share Stapled Units/shares of the Company	(2)	**3**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Groups 2011	2012
Beginning of year	48	**72**
Net gain transfer to equity *(note 29)*	24	**13**
End of year	72	**85**
Market value of listed equity securities – overseas	72	**85**

As at December 31, 2012, the Groups' equity securities were reviewed for impairment by management. Consequently, there was no provision for impairment (2011: nil) recognized in the consolidated income statement for the year ended December 31, 2012. The Groups do not hold any collateral over these securities.

No available-for-sale financial assets were pledged as security for bank borrowings of the Groups as at December 31, 2011 and 2012.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	The Groups 2011	2012
Market value of listed securities	–	**8**
Less: Securities held for employee share award to be vested within one year classified as current assets	–	**4**
Non-current portion	–	**4**

Financial assets at fair value through profit or loss represent shares of PCCW, acquired under the Purchase Scheme of PCCW. Please refer to note 27(b)(iv) for details of the share award schemes of PCCW.

23 INVESTMENTS IN SUBSIDIARIES

In HK$ million	The Company 2011	2012
Unlisted shares, at cost	19,837	**20,004**

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the balances with subsidiaries are as follows:

a. Balances with subsidiaries

In HK$ million	The Company 2011	2012
Amount due from a subsidiary	8,339	**7,481**
Amounts due to subsidiaries	–	**(92)**

Balances with subsidiaries are unsecured, non-interest-bearing, and have no fixed terms of repayment except for a loan due from a subsidiary of HK$7,437 million (2011: HK$7,800 million) which bears interest at HIBOR plus 0.3% per annum and repayable within one year.

23 INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2012, particulars of the principal subsidiaries of the Company are as follows:

Company	Country/place of incorporation/ establishment and operation	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company 2012 Directly	Indirectly	Principal activities
Gateway Global Communications Limited (formerly known as PCCW Global (UK) Limited)	United Kingdom	GBP1	–	**100%**	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies
Hong Kong Telecommunications (HKT) Limited	Hong Kong	HK$2,488,200,001	–	**100%**	Provision of telecommunications services
HKT Group Holdings Limited	Cayman Islands	US$636,000,003	**100%**	–	Investment holding
HKT Services Limited	Hong Kong	HK$1	–	**100%**	Provision of management services to group companies
PCCW Global B.V.	Netherlands/France	EUR18,000	–	**100%**	Investment holding and provision of telecommunications and related services
PCCW Global, Inc.	U.S. (Delaware)	US$18.01	–	**100%**	Supply of broadband internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	HK$3	–	**100%**	Provision of network-based telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK$10	–	**100%**	Provision of satellite-based and network-based telecommunications services
PCCW Global (Singapore) Pte. Ltd. (in member's voluntary liquidation)	Singapore	S$172,124,441.71	–	**100%**	Telecommunication solutions related services
HKT Global (Singapore) Pte. Ltd.	Singapore	S$60,956,485.64	–	**100%**	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	–	**75%**	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services

23 INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

Company	Country/place of incorporation/ establishment and operation	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company 2012 Directly	Interest held by the Company 2012 Indirectly	Principal activities
PCCW Mobile HK Limited	Hong Kong	HK$100 ordinary shares HK$1,254,000,000 non-voting deferred shares	–	**100%**	Provision of mobile services to its customers, which is procured from Hong Kong Telecommunications (HKT) Limited, and the sale of mobile phones and accessories
廣州電盈綜合客戶服務技術發展有限公司[2] (PCCW Customer Management Technology and Services (Guangzhou) Limited[3])	The PRC	HK$53,803,000[5]	–	**100%**	Customer service and consultancy
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	HK$2	–	**100%**	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (Hong Kong) Limited	Hong Kong	HK$12	–	**100%**	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (US), Inc. (formerly known as Interactive Teleservices Corporation)	Nebraska, U.S.	US$1,169	–	**100%**	Telemarketing and direct marketing services
Unihub China Information Technology Company Limited[1,4]	The PRC	RMB200,000,000	–	**38.2%**	Selling of hardware and software and information system consulting services

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

Notes:
1. Represents a sino-foreign equity joint venture.
2. Represents a wholly foreign owned enterprise.
3. Unofficial company name.
4. This company is consolidated by the Groups as the Groups own more than one half of the voting rights in the board of directors of this company.
5. The change of registered capital from HK$53,803,000 to HK$93,240,000 has been approved by PRC authority in February 2013.

24 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	The Groups 2011 HK$ million	2012 HK$ million
Work-in-progress	521	**445**
Finished goods	412	**394**
Consumable inventories	143	**132**
	1,076	**971**

b. Trade receivables, net

In HK$ million	The Groups 2011	2012
Trade receivables *(note (i))*	2,651	**3,550**
Less: Impairment loss on doubtful debts *(note (ii))*	(110)	**(125)**
Trade receivables, net	2,541	**3,425**

i. Aging analysis of trade receivables

	The Groups 2011	2012
0–30 days	1,426	**1,768**
31–60 days	356	**422**
61–90 days	145	**278**
91–120 days	102	**113**
Over 120 days	622	**969**
	2,651	**3,550**

ii. Impairment loss on doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	The Groups 2011	2012
Beginning of year	136	**110**
Impairment loss recognized	125	**138**
Uncollectible amounts written off	(151)	**(123)**
End of year	110	**125**

As at December 31, 2012, the Groups' trade receivables of HK$125 million (2011: HK$110 million) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$88 million (2011: HK$79 million) was recognized. The Groups do not hold any collateral over these balances.

24 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net *(continued)*

iii. Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Groups 2011 HK$ million	**2012 HK$ million**
Neither past due nor impaired	1,323	**1,297**
0–30 days past due	363	**714**
31–60 days past due	181	**270**
61–90 days past due	96	**227**
Over 90 days past due	578	**917**
Past due but not impaired	1,218	**2,128**
	2,541	**3,425**

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Groups or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at December 31, 2011, certain trade receivables with an aggregate carrying value of approximately HK$37 million were pledged as security for certain bank borrowings of the Groups. Please refer to note 37 for details of the Groups' bank loan facilities. No trade receivables were pledged as at December 31, 2012.

c. Short-term borrowings

In HK$ million	Note	The Groups 2011	**2012**
US$500 million 6% guaranteed notes due 2013	(i)	–	**3,873**
Bank borrowings		31	**4,589**
		31	**8,462**
Secured		31	**–**
Unsecured		–	**8,462**

(i) US$500 million 6% guaranteed notes due 2013 (the "Notes due 2013")

In July 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The Notes due 2013 are irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

24 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

d. Trade payables

The aging analysis of trade payables is set out below:

In HK$ million	The Groups 2011	**2012**
0–30 days	657	**604**
31–60 days	97	**273**
61–90 days	53	**75**
91–120 days	35	**84**
Over 120 days	690	**930**
	1,532	**1,966**

25 LONG-TERM BORROWINGS

In HK$ million	The Groups 2011	**2012**
Repayable within a period		
– over one year, but not exceeding two years	8,123	**2,292**
– over two years, but not exceeding five years	15,347	**13,352**
	23,470	**15,644**
Representing:		
US$500 million 6% guaranteed notes due 2013 *(note (a))*	3,881	**–**
US$500 million 5.25% guaranteed notes due 2015 *(note (b))*	3,867	**3,861**
US$500 million 4.25% guaranteed notes due 2016 *(note (c))*	3,979	**4,016**
Bank borrowings	11,743	**7,767**
	23,470	**15,644**
Secured	2	**–**
Unsecured	23,468	**15,644**

a. US$500 million 6% guaranteed notes due 2013 (the "Notes due 2013")

The Notes due 2013 were classified as short-term borrowing as at December 31 2012. Please refer to note 24(c)(i) for details.

b. US$500 million 5.25% guaranteed notes due 2015 (the "Notes due 2015")

In July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 5.25% guaranteed notes due 2015 which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2015 are irrevocably and unconditionally guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

c. US$500 million 4.25% guaranteed notes due 2016 (the "Notes due 2016")

In August 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 4.25% guaranteed notes due 2016 which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2016 are irrevocably and unconditionally guaranteed by Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of Hong Kong Telecommunications (HKT) Limited and HKTGH.

Please refer to note 37 for details of the Groups' bank loan facilities.

26 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Groups 2011	**2012**
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	114	**65**
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note (b))*	31	**22**
Fixed-to-floating cross currency swap contracts – fair value hedges *(note (b))*	130	**166**
	275	**253**
Current assets		
Fixed – to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	–	**4**

As at December 31, 2012, the Groups had outstanding cross currency swap contracts with notional contract amounts of US$1,500 (approximately HK$11,627 million) (2011: US$1,500 million (approximately HK$11,664 million)), at various rates, to manage the Groups' exposure to foreign currency fluctuations and interest rate risk.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

a. All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2012 with notional contract amounts of US$1,000 million (approximately HK$7,751 million) (2011: US$1,000 million (approximately HK$7,776 million)) was designated as cash flow hedges of the foreign exchange rate risk in the Groups foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 as at December 31, 2012 (2011: 7.7790 to 7.8014) for the notional amounts (see note 34(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the consolidated income statements until the repayment of the borrowings.

b. The Groups have entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2012 with notional contract amounts of US$500 million (approximately HK$3,876 million) (2011: US$500 million (approximately HK$3,888 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7708 to 7.7711 as at December 31, 2012 (2011: 7.7708 to 7.7711) for the notional amounts (see note 34(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.24% (see note 34(c)(ii)).

   These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Groups' foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Groups' borrowings at fixed interest rates.

   Gains and losses recognized in the hedging reserve under equity on these swap contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

   Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs, net" in the consolidated income statements. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to approximately HK$4 million (2011: HK$3 million) for the year ended December 31, 2012 (see note 10).

27 EMPLOYEE BENEFITS

a. Employee retirement benefits – Defined contribution retirement schemes

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 which was revised upward to HK$25,000 with effect from June 1, 2012. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

b. Equity compensation benefits

i. 1994 and 2004 PCCW Share option schemes

PCCW has a share option scheme (the "1994 PCCW Scheme") which was adopted in September 1994 to be valid for a period of ten years commencing on September 20, 1994. The 1994 PCCW Scheme was amended in May 2002 such that the board of directors of PCCW (the "PCCW Board") may, at its discretion, invite employees of PCCW and its subsidiaries, including directors of PCCW, and other eligible persons, to take up options to subscribe for shares of PCCW. The vesting period and exercise period of the options are determined by the PCCW Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share.

At PCCW's annual general meeting held on May 19, 2004, the shareholders of PCCW approved the termination of the 1994 PCCW Scheme and the adoption of a new share option scheme (the "2004 PCCW Scheme"). Since May 19, 2004, the PCCW Board may, at its discretion, grant share options to any eligible person to subscribe for shares in PCCW subject to the terms and conditions stipulated in the 2004 PCCW Scheme. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 PCCW Scheme and any other share option schemes including the 1994 PCCW Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 PCCW Scheme must not exceed 10% of PCCW's issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders of PCCW). The exercise price of the options under the 2004 PCCW Scheme shall be determined by the PCCW Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange, and (iii) the nominal value of a share on the date of grant. The vesting period and exercise period of the options are determined by the PCCW Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 PCCW Scheme. The 2004 PCCW Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The HKT Trust and the Company have no legal or constructive obligation to repurchase or settle the options in cash.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. 1994 and 2004 PCCW Share option schemes *(continued)*

(1) Movements in the number of share options outstanding and their related weighted average exercise prices

In HK$	The Groups			
	2011		**2012**	
	Weighted average exercise price	Number of options	**Weighted average exercise price**	**Number of options**
Beginning of year	5.75	31,983,975	**4.82**	**22,614,335**
Net increase/(decrease) due to transfer of employees from/(to) fellow subsidiaries *(note (3))*	4.31	2,043,813	**4.35**	**(3,411,000)**
Cancelled/lapsed *(note (4))*	7.34	(11,413,453)	**6.15**	**(5,862,000)**
End of year *(note (2))*	4.82	22,614,335	**4.35**	**13,341,335**
Exercisable at end of year		22,614,335		**13,341,335**

(2) Terms of unexpired and unexercised share options at the balance sheet date

Date of grant	Vesting period	Exercise period	Exercise price HK$	The Groups Number of options 2011	**2012**
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	200,000	–
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	5,440,000	–
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	16,967,335	**13,341,335**
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	–
				22,614,335	**13,341,335**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. 1994 and 2004 PCCW Share option schemes *(continued)*

(2) Terms of unexpired and unexercised share options at the balance sheet date *(continued)*

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

	The Groups			
	2011		**2012**	
Range of exercise prices	Weighted average remaining contractual life (years)	Number of options	**Weighted average remaining contractual life (years)**	**Number of Options**
HK$4.01 to 5.04	1.56	16,974,335	**0.56**	**13,341,335**
5.05 to 7.54	0.87	5,440,000	–	–
7.55 to 11.29	0.58	200,000	–	–
		22,614,335		**13,341,335**

(3) Details of share option transferred to/(from) the Groups with employees transferred during the year:

Date of grant	Vesting period	Exercise period	Exercise Price HK$	The Groups Number of options 2011	**2012**
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26, 2005	May 26, 2001 to April 17, 2011	10.3000	(760)	–
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	(1,760)	–
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	(40,000)	–
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	2,086,333	**(3,411,000)**
				2,043,813	**(3,411,000)**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. 1994 and 2004 PCCW Share option schemes *(continued)*

(4) Details of share options cancelled or lapsed during the year:

		The Groups	
		Number of options	
Exercise period	Exercise price HK$	2011	**2012**
January 22, 2001 to January 22, 2011	16.8400	2,659,453	**–**
May 26, 2001 to April 17, 2011	10.3000	70,680	**–**
July 16, 2002 to July 16, 2011	9.1600	106,320	**–**
August 1, 2003 to July 31, 2012	8.0600	–	**200,000**
November 13, 2003 to November 12, 2012	6.1500	–	**5,440,000**
September 16, 2004 to September 14, 2013	4.9000	–	**7,000**
July 25, 2004 to July 23, 2013	4.3500	8,577,000	**215,000**
		11,413,453	**5,862,000**

(5) There were no share options granted during the year.

(6) There were no share options exercised during the year.

ii. 2011-2021 Share Stapled Units Option Scheme

On November 7, 2011 (the "Adoption Date"), the HKT Trust and the Company conditionally adopted a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which has become effective upon listing, to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Groups and to provide the Groups with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Unit option has been granted under the 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the 2011-2021 Option Scheme as at December 31, 2011 and 2012 and no options were granted to or exercised by any directors of the Company and the Trustee-Manager or the chief executive of the Company or employees of the Groups or other participants nor cancelled or lapsed during the years ended December 31, 2011 and 2012.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes").

The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company which became effective upon listing as a potential means to incentivize and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

(1) any full-time or part-time employees of the Company and/or any of its subsidiaries;

(2) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above except for any directors of the Company or its subsidiaries and/or any other connected persons of the Company.

The eligible participants are awarded Share Stapled Units purchased in the market under the HKT Share Stapled Units Purchase Scheme and newly issued Share Stapled Units under the HKT Share Stapled Units Subscription Scheme respectively.

The Share Stapled Units Award Schemes are administered by the board of directors of the Company ("Company Board") and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants. Under both schemes, following the making of an award to eligible participants, the relevant Share Stapled Units are held by the Trustee for that eligible participant and then vest over a period of time provided that the eligible participant remains an employee of the Groups at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company Board shall be at liberty to waive such condition.

Awards may be made by the Company Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the Company Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2011 and 2012.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	The Groups Number of Share Stapled Units 2011	 **2012**
Beginning of year	–	**–**
Purchase from the market by the trustee at average market price of HK$6.07 per Share Stapled Unit	–	**1,158,000**
End of year	–	**1,158,000**

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	The Groups 2011 Weighted average fair value at date of award HK$	 Number of Share Stapled Units	 **2012** **Weighted average fair value at date of award HK$**	 **Number of Share Stapled Units**
Beginning of year	–	–	**–**	**–**
Awarded *(note (3))*	–	–	**5.98**	**1,145,831**
Forfeited *(note (4))*	–	–	**5.98**	**(5,566)**
End of year *(note (2))*		–		**1,140,265**

The average fair value of Share Stapled Units awarded during the year at the measurement date is HK$5.98 per Share Stapled Unit, which is measured by the quoted market price of the Share Stapled Units at the respective award dates.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

(2) Terms of unvested Share Stapled Units at balance sheet date

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2011	The Groups Number of Share Stapled Units **2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**534,748**
April 11, 2012	April 11, 2013 to April 11, 2014	5.98	–	**605,517**
			–	**1,140,265**

The unvested Share Stapled Units at December 31, 2012 had a weighted average remaining vesting period of 0.81 years (2011: Nil).

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

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2011	The Groups Number of Share Stapled Units **2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**537,532**
April 11, 2012	April 11, 2013 to April 11, 2014	5.98	–	**608,299**
			–	**1,145,831**

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

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2011	The Groups Number of Share Stapled Units **2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**2,784**
April 11, 2012	April 11, 2013 to April 11, 2014	5.98	–	**2,782**
			–	**5,566**

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

During the year, share-based compensation expenses of HK$4 million is recognized for these Share Stapled Units Award Schemes in the consolidated income statement and employee share-based compensation reserve of HK$4 million is recognized.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW

In 2002, PCCW established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. The directors of PCCW were not eligible to participate in either scheme. On June 10, 2002, PCCW approved the establishment of the PCCW Purchase Scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, PCCW approved the establishment of the PCCW Subscription Scheme under which selected employees are awarded newly issued shares. The purpose of both the PCCW Purchase Scheme and the PCCW Subscription Scheme is to recognize the contributions of certain employees of PCCW and its subsidiaries ("PCCW Group"), to retain them for the continued operation and development of the PCCW Group. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the PCCW Group at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant Committee of the board of directors of PCCW shall be at liberty to waive such condition. In May 2006, the PCCW Purchase Scheme was altered such that the directors of PCCW are also eligible to participate in this scheme. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the issued share capital of PCCW (excluding shares that have already been transferred to employees on vesting).

Pursuant to the relevant scheme rules of the PCCW Purchase Scheme and the PCCW Subscription Scheme, both schemes expired on November 15, 2012. The expiry of the scheme rules would not effect the shares which were previously awarded prior to the expiry date. Each of the participating subsidiaries of PCCW is in the process of adopting a new set of scheme rules in respect of the PCCW Purchase Scheme and the PCCW Subscription Scheme so as to continue to participate in both schemes for a further 10 years and to accommodate the granting of the Share Stapled Units in the future in addition or as alternative to the shares of PCCW.

No awards have been made or agreed to be made, under the PCCW Subscription Scheme for the years ended December 31, 2011 and 2012.

A summary of movements in PCCW shares held by the Groups under the PCCW Purchase Scheme in respect of eligible employees of the Company and/or its subsidiaries during the year is as follows:

	Number of PCCW shares	
	2011	**2012**
Beginning of year	–	**–**
Purchase from the market by the trustee at average market price of HK$2.87 per PCCW share	–	**2,236,000**
End of year	–	**2,236,000**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

Details of PCCW shares awarded pursuant to the PCCW share award schemes during the year and the unvested shares are as follows:

(1) Movements in the number of unvested PCCW shares and their related weighted average fair value at their measurement dates

	The Groups			
	2011		**2012**	
	Weighted average fair value at date of award HK$	Number of PCCW shares	**Weighted average fair value at date of award HK$**	**Number of PCCW shares**
Beginning of year	–	–	**–**	**–**
Awarded *(note (3))*	–	–	**2.80**	**2,215,122**
Forfeited *(note (4))*	–	–	**2.80**	**(10,187)**
End of year *(note (2))*		–		**2,204,935**

The average fair value of PCCW shares awarded to eligible employees of the Company and/or its subsidiaries during the year at the measurement date is HK$2.80 per PCCW share, which is measured by the quoted market price of PCCW shares at the respective award dates.

(2) Terms of unvested PCCW shares at balance sheet date

			The Groups	
			Number of PCCW shares	
Date of award	Vesting period	Fair value at date of award HK$	2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**1,026,370**
April 11, 2012	April 11, 2013 to April 11, 2014	2.80	–	**1,178,565**
			–	**2,204,935**

The PCCW shares unvested at December 31, 2012 had a weighted average remaining vesting period of 0.81 years (2011: Nil).

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(3) Details of PCCW shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**1,031,464**
April 11, 2012	April 11, 2013 to April 11, 2014	2.80	–	**1,183,658**
			–	**2,215,122**

(4) Details of PCCW shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**5,094**
April 11, 2012	April 11, 2013 to April 11, 2014	2.80	–	**5,093**
			–	**10,187**

The fair value of the PCCW shares awarded during the year at the measurement dates is measured by the quoted market price of the PCCW shares at the respective award dates.

During the year, share-based compensation expenses of HK$4 million is recognized in the consolidated income statement and HK$4 million is recognized as an obligation in liabilities.

28 EQUITY OF HKT LIMITED

	2011		2012	
	Number of shares	Nominal value HK$	**Number of shares**	**Nominal value HK$**
Authorized:				
Ordinary shares				
Beginning of year	–	–	**20,000,000,000**	**10,000,000**
Increase during year of HK$0.0005 each *(note (a))*	20,000,000,000	10,000,000	**–**	**–**
End of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Preference shares				
Beginning of year	–	–	**20,000,000,000**	**10,000,000**
Increase during year of HK$0.0005 each *(note (a))*	20,000,000,000	10,000,000	**–**	**–**
End of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Issued and fully paid:				
Ordinary shares of HK$0.0005 each				
Beginning of year	–	–	**6,416,730,792**	**3,208,365**
Issue of ordinary shares *(note (a))*	15,600	8	**–**	**–**
Issue of ordinary shares in exchange for interest in HKTGH *(note (b))*	4,363,361,192	2,181,680	**–**	**–**
Issue of ordinary shares *(note (c))*	2,053,354,000	1,026,677	**–**	**–**
	6,416,730,792	3,208,365	**6,416,730,792**	**3,208,365**
Preference shares of HK$0.0005 each				
Beginning of year	–	–	**6,416,730,792**	**3,208,365**
Issue of preference shares *(note (a))*	15,600	8	**–**	**–**
Issue of preference shares in exchange for interest in HKTGH *(note (b))*	4,363,361,192	2,181,680	**–**	**–**
Issue of preference shares *(note (c))*	2,053,354,000	1,026,677	**–**	**–**
	6,416,730,792	3,208,365	**6,416,730,792**	**3,208,365**

28 EQUITY OF HKT LIMITED *(CONTINUED)*

Movements in reserves of the Company during the year ended December 31, 2012 are as follows:

In HK$ million	The Company 2011 Share premium	Retained profits	Total
At January 1, 2011	–	–	–
Issue of ordinary and preference shares for interest in HKTGH *(note (b))*	18,618	–	18,618
Issue of ordinary and preference shares, net of issuance expenses *(note (c))*	8,942	–	8,942
Total comprehensive income for the year	–	3	3
At December 31, 2011	27,560	3	27,563

In HK$ million	The Company **2012** **Share premium**	**Retained profits**	**Total**
At January 1, 2012	**27,560**	**3**	**27,563**
Dividend paid in respect of the previous year	**(216)**	**–**	**(216)**
Interim dividend paid in respect of current year		**(1,287)**	**(1,287)**
Total comprehensive income for the year	**–**	**1,320**	**1,320**
At December 31, 2012	**27,344**	**36**	**27,380**

a. On June 14, 2011, one share of US$1.00 was allotted and issued for cash at par to the initial subscriber, Mapcal Limited. On June 14, 2011, the said one share was transferred to CAS No. 1.

   On November 7, 2011, one share of US$1.00 was allotted and issued to CAS No. 1 by a capitalization of inter-company indebtedness owed by the Company to CAS No. 1.

   On November 7, 2011, the Company passed resolutions to change the currency denomination of the issued and unissued share capital of the Company from United States Dollars to Hong Kong Dollars by (i) increasing the authorized share capital of the Company by HK$20,000,000 by the creation of 40,000,000,000 shares ("New Shares") of a nominal or par value of HK$0.0005 each (the "Increase") of which 20,000,000,000 shall be designated as ordinary shares of par value of HK$0.0005 each and 20,000,000,000 shall be designated as preference shares of par value of HK$0.0005 each, in each case with the rights, preferences, privileges and restrictions as set out in the Company's amended and restated memorandum and articles of association; (ii) the allotment and issue of 31,200 New Shares (comprising 15,600 ordinary shares and 15,600 preference shares of the Company) fully paid to CAS No. 1 (the "Issue"); (iii) the repurchase by the Company of the 2 existing issued shares of US$1.00 each ("Existing Shares") in the share capital of the Company in issue immediately prior to the Increase at a price in Hong Kong Dollars equivalent to US$1.00 per Existing Share which was paid out of the proceeds of the Issue referred to in (ii) (the "Repurchase") following which the Existing Shares were cancelled; and (iv) following the Repurchase and cancellation, the authorized but unissued share capital of the Company was diminished by the cancellation of all the 50,000 unissued shares of par value of US$1.00 each in the share capital of the Company.

b. On completion of the Reorganization, 4,363,361,192 ordinary shares and 4,363,361,192 preference shares of the Company were allotted and issued to CAS No. 1 in exchange for the entire issued share capital of HKTGH.

c. On completion of the global offering of Share Stapled Units, 2,053,354,000 ordinary shares and 2,053,354,000 preference shares of the Company were issued and received net proceeds of HK$8,944 million.

All new ordinary shares issued during the 2011 rank pari passu in all respects with the existing shares.

29 RETAINED PROFITS AND OTHER RESERVES

In HK$ million	The Groups 2011						
	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Other reserve	Retained profits	Total
At January 1, 2011	16,667	355	(695)	208	(37)	2,853	19,351
Total comprehensive income/ (expense) for the year							
Profit for the year	–	–	–	–	–	1,221	1,221
Other comprehensive income							
Exchange differences on translating foreign operations	–	11	–	–	–	–	11
Available-for-sale financial assets:							
– changes in fair value	–	–	–	–	24	–	24
Cash flow hedges:							
– effective portion of changes in fair value	–	–	–	16	–	–	16
– transfer from equity to consolidated income statement	–	–	–	(12)	–	–	(12)
Capital contribution from the immediate holding company *(note (a))*	2,005	–	–	–	–	–	2,005
Issue of ordinary and preference shares of the Company in exchange for the entire issued share capital of HKTGH *(note (b))*	(1,148)	–	–	–	–	–	(1,148)
Transfer of businesses between the related parties and Groups in connection with the Reorganization *(note (c))*	–	–	348	–	–	–	348
Issue of Share Stapled Units, net of issuance expenses *(note (d))*	8,942	–	–	–	–	–	8,942
Distribution to equity owners	–	–	–	–	–	(8)	(8)
At December 31, 2011	26,466	366	(347)	212	(13)	4,066	30,750

a. This represents capital contribution from CAS No. 1 to the Groups by way of capitalization of HK$2,005 million HKTGH owed to CAS No. 1.

b. This represents the difference between the value of the 4,363,361,192 ordinary shares and 4,363,361,192 preference shares issued and the fair value of 100% interest in HKTGH.

c. Pursuant to the Reorganization, certain businesses were transferred to the Groups and its related parties as set out in notes 2(b)(ii) and (iii). The merger reserve represents the difference between the consideration of the transfer and the net asset value of the business on the date of the transfer.

d. On November 29, 2011, the Company issued 2,053,354,000 ordinary shares and 2,053,354,000 preference shares in connection with the global offering of Share Stapled Units and received net proceeds of HK$8,944 million.

29 RETAINED PROFITS AND OTHER RESERVES *(CONTINUED)*

In HK$ million	The Groups 2012								
	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging Reserve	Other reserve	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2012	26,466	366	(347)	212	(13)	–	–	4,066	30,750
Total comprehensive income/(expense) for the year									
Profit for the year	–	–	–	–	–	–	–	1,610	1,610
Other comprehensive income									
Exchange differences on translating foreign operations	–	98	–	–	–	–	–	–	98
Available-for-sale financial assets:									
– changes in fair value	–	–	–	–	13	–	–	–	13
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	(54)	–	–	–	–	(54)
– transfer from equity to consolidated income statement	–	–	–	19	–	–	–	–	19
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(7)	–	(7)
Employee share-based compensation	–	–	–	–	–	4	–	–	4
Distribution/Dividend paid in respect of the previous year	(216)	–	–	–	–	–	–	–	(216)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	(1,287)	(1,287)
Increase in interest in subsidiaries	–	–	–	–	–	–	–	(2)	(2)
At December 31, 2012	26,250	464	(347)	177	–	4	(7)	4,387	30,928

30 DEFERRED INCOME TAX

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

In HK$ million	The Groups 2011 Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	2,186	(105)	(3)	2,078
(Credited)/charged to the consolidated income statements *(note 12(a))*	(195)	105	–	(90)
End of year	1,991	–	(3)	1,988

In HK$ million	The Groups **2012** **Accelerated tax depreciation and amortization**	**Tax losses**	**Others**	**Total**
Beginning of year	**1,991**	**–**	**(3)**	**1,988**
(Credited)/charged to the consolidated income statements *(note 12(a))*	**(164)**	**2**	**–**	**(162)**
Additions upon business combinations *(note 38)*	**–**	**–**	**2**	**2**
End of year	**1,827**	**2**	**(1)**	**1,828**

In HK$ million	The Groups 2011	**2012**
Deferred income tax assets recognized in the consolidated balance sheet	(3)	**(3)**
Deferred income tax liabilities recognized in the consolidated balance sheet	1,991	**1,831**
	1,988	**1,828**

b. The Groups have unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$8,659 million as at December 31, 2012 (2011: HK$8,979 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$13 million as at December 31, 2012 (2011: HK$40 million) will expire within 1 to 5 years. HK$13 million tax losses as at December 31, 2012 will expire after 5 years (2011: nil). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

31 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2012, the Groups had carrier licence fee liabilities repayable as follows:

In HK$ million	The Groups					
	2011			**2012**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Repayable within a period						
– not exceeding one year	190	9	199	**200**	**9**	**209**
– over one year, but not exceeding two years	149	22	171	**159**	**23**	**182**
– over two years, but not exceeding five years	429	144	573	**345**	**97**	**442**
– over five years	260	140	400	**232**	**118**	**350**
	1,028	315	1,343	**936**	**247**	**1,183**
Less: Amounts repayable within one year included under current liabilities	(190)	(9)	(199)	**(200)**	**(9)**	**(209)**
	838	306	1,144	**736**	**238**	**974**

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	The Groups 2011	**2012**
Profit before income tax	1,615	**2,115**
Adjustments for:		
Interest income	(40)	**(25)**
Interest expense	1,313	**731**
Finance charges	226	**94**
Cash flow hedges: transferred from equity	1	**1**
Fair value gains on derivative financial instruments on fair value hedges	(198)	**(38)**
Fair value adjustment of borrowings attributable to interest rate risk	202	**42**
Net gain on cash flow hedging instruments transferred from equity	(1)	**(19)**
Fair value gain on financial assets at fair value through profit or loss	–	**(1)**
Depreciation of property, plant and equipment	2,252	**2,229**
Gain on disposals of property, plant and equipment, net	(5)	**–**
Provision for inventory obsolescence	7	**5**
Impairment loss for doubtful debts	125	**138**
Amortization of intangible assets	1,985	**2,446**
Amortization of land lease premium	13	**13**
Share of results of jointly controlled companies	2	**44**
Share of results of an associate	17	**35**
Share-based payment	–	**8**
Increase in financial assets at fair value through profit or loss for equity compensation scheme	–	**(7)**
Increase in treasury stock for equity compensation scheme	–	**(7)**
Impairment of interest in a jointly controlled company	16	**–**
Assets and business received from a jointly controlled company	(491)	**–**
(Increase)/decrease in operating assets		
– inventories	(222)	**100**
– trade receivables	(562)	**(143)**
– prepayments, deposits and other current assets	(239)	**(377)**
– other non-current assets	(50)	**(33)**
Increase/(decrease) in operating liabilities		
– trade payables, accruals and other payables	284	**(332)**
– other long-term liabilities	(6)	**(2)**
– advances from customers	(100)	**193**
– amounts due to related companies	(29)	**99**
– amounts due to fellow subsidiaries and the ultimate holding company	530	**(184)**
– deferred income (non-current)	165	**95**
Cash generated from operations	6,810	**7,220**
Interest received	40	**7**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(88)	**(172)**
– Overseas profits tax paid	(42)	**(31)**
Net cash generated from operating activities	6,720	**7,024**

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

b. Additions upon business combinations

In HK$ million	The Groups 2011	2012
Purchase consideration	–	**268**
Net assets/(liabilities) acquired:		
Property, plant and equipment	–	**178**
Intangible assets	–	**118**
Trade receivables, prepayments, deposits and other current assets	–	**927**
Cash and cash equivalents	–	**41**
Trade payables, accruals, other payables and advances from customers	–	**(1,001)**
Current income tax liabilities	–	**(1)**
Deferred income tax liabilities	–	**(2)**
	–	**260**
Obligation assumed upon business combinations	–	**121**
Goodwill on acquisition	–	**129**
Satisfied by:		
Cash	–	**268**
Analysis of net outflow of cash and cash equivalents in respect of additions upon business combinations:		
Purchase consideration settled in cash	–	**(268)**
Cash and cash equivalents of subsidiaries acquired	–	**41**
	–	**(227)**
Settlement of obligation assumed upon business combinations	–	**(121)**

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

c. Major non-cash transactions

During the year ended December 31, 2011, PCCW, Telstra and the JV completed certain transactions which resulted in the transfer by PCCW and Telstra the majority of the JV's assets, business platforms and operations to the Groups. Please refer to note 5(b)(ii) for details.

During the year ended December 31, 2011, as part of the Reorganization, all inter-company balances between the Groups and the ultimate holding company and the Groups' fellow subsidiaries, including the Solutions Group and the Media Group, assigned or novated with a net balance between HKTGH and CAS No. 1. The net amount owing from HKTGH to CAS No. 1 was capitalized by way of HKTGH issuing one ordinary share to CAS No. 1 (see note 2(b)).

During the year ended December 31, 2012, the Groups acquired certain software and content from fellow subsidiaries amounting to approximately HK$470 million, which was settled through offsetting with corresponding amount due from fellow subsidiaries for cash received on behalf.

d. Analysis of cash and cash equivalents

In HK$ million	The Groups		The Company	
	2011	**2012**	2011	**2012**
Cash and bank balances	2,227	**2,401**	434	**3**
Bank overdrafts	(1)	**–**	–	**–**
Cash and cash equivalents as at December 31,	2,226	**2,401**	434	**3**

33 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Groups, to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("adjusted capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

34 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	The Groups 2011 Loans and receivables	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets				
Available-for-sale financial assets	–	–	72	72
Derivative financial instruments	–	275	–	275
Other non-current assets	24	–	–	24
	24	275	72	371
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	1,987	–	–	1,987
Trade receivables, net	2,541	–	–	2,541
Cash and cash equivalents	2,226	–	–	2,226
	6,754	–	–	6,754
Total	6,778	275	72	7,125

In HK$ million	The Groups 2011 Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	31	31
Trade payables	1,532	1,532
Accruals and other payables	2,315	2,315
Carrier licence fee liabilities	190	190
Amounts due to related companies	29	29
Amounts due to fellow subsidiaries and the ultimate holding company	1,282	1,282
	5,379	5,379
Non-current liabilities		
Long-term borrowings	23,470	23,470
Carrier licence fee liabilities	838	838
Other long-term liabilities	51	51
	24,359	24,359
Total	29,738	29,738

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category *(continued)*:

In HK$ million	The Groups 2012				
	Loans and receivables	**Assets at fair value through profit or loss**	**Derivatives used for hedging**	**Available-for-sale financial asset**	**Total**
Non-current assets					
Available-for-sale financial assets	–	–	–	85	85
Financial assets at fair value through profit or loss	–	4	–	–	4
Derivative financial instruments	–	–	253	–	253
Other non-current assets	28	–	–	–	28
	28	4	253	85	370
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	2,375	–	–	–	2,375
Trade receivables, net	3,425	–	–	–	3,425
Financial assets at fair value through profit or loss	–	–	4	–	4
Amount due from related companies	25	–	–	–	25
Cash and cash equivalents	2,401	–	–	–	2,401
	8,226	–	4	–	8,230
Total	8,254	4	257	85	8,600

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category *(continued)*:

In HK$ million	The Groups 2012 Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	**8,462**	**8,462**
Trade payables	**1,966**	**1,966**
Accruals and other payables	**2,539**	**2,539**
Carrier licence fee liabilities	**200**	**200**
Amounts due to related companies	**135**	**135**
Amounts due to fellow subsidiaries	**672**	**672**
	13,974	**13,974**
Non-current liabilities		
Long-term borrowings	**15,644**	**15,644**
Carrier licence fee liabilities	**736**	**736**
Other long-term liabilities	**51**	**51**
	16,431	**16,431**
Total	**30,405**	**30,405**

In HK$ million	The Company Loans and receivables 2011	**2012**
Current assets		
Amount due from a subsidiary	8,339	**7,481**
Cash and bank balances	434	**3**
Total	8,773	**7,484**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category *(continued)*:

In HK$ million	The Company **Other financial liabilities at amortized cost**	
	2011	**2012**
Current liabilities		
Accruals and other payables	53	**4**
Amount due to subsidiaries	–	**92**
Amounts due to the ultimate holding company	71	**–**
Amount due to the immediate holding company	917	**–**
Total	1,041	**96**

Exposures to credit, liquidity and market (including foreign currency, interest rate) risks arise in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Groups' financial management policies and practices described below.

a. Credit risk

The Groups' credit risk is primarily attributable to trade receivables, interest receivable, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers. As at December 31, 2011 and 2012, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 24(b).

Amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2012, the amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Groups as disclosed in note 36, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of business. Please refer to note 36 for details.

The following table details the remaining contractual maturities at the balance sheet dates of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the group can be required to pay:

In HK$ million	The Groups 2011					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
Current liabilities						
Short-term borrowings	(32)	–	–	–	(32)	(31)
Trade payables	(1,532)	–	–	–	(1,532)	(1,532)
Accruals and other payables	(2,315)	–	–	–	(2,315)	(2,315)
Carrier licence fee liabilities	(199)	–	–	–	(199)	(190)
Amounts due to related companies	(29)	–	–	–	(29)	(29)
Amounts due to fellow subsidiaries and the ultimate holding company	(1,282)	–	–	–	(1,282)	(1,282)
	(5,389)	–	–	–	(5,389)	(5,379)
Non-current liabilities						
Long-term borrowings	(686)	(8,750)	(16,011)	–	(25,447)	(23,470)
Carrier licence fee liabilities	–	(171)	(573)	(400)	(1,144)	(838)
Other long-term liabilities	(1)	(1)	(24)	(48)	(74)	(51)
	(687)	(8,922)	(16,608)	(448)	(26,665)	(24,359)
Total	(6,076)	(8,922)	(16,608)	(448)	(32,054)	(29,738)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Groups 2012					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Short-term borrowings	**(8,676)**	**–**	**–**	**–**	**(8,676)**	**(8,462)**
Trade payables	**(1,966)**	**–**	**–**	**–**	**(1,966)**	**(1,966)**
Accruals and other payables	**(2,539)**	**–**	**–**	**–**	**(2,539)**	**(2,539)**
Carrier licence fee liabilities	**(209)**	**–**	**–**	**–**	**(209)**	**(200)**
Amounts due to related companies	**(135)**	**–**	**–**	**–**	**(135)**	**(135)**
Amounts due to fellow subsidiaries and the ultimate holding company	**(672)**	**–**	**–**	**–**	**(672)**	**(672)**
	(14,197)	**–**	**–**	**–**	**(14,197)**	**(13,974)**
Non-current liabilities						
Long-term borrowings	**(411)**	**(2,717)**	**(13,606)**	**–**	**(16,734)**	**(15,644)**
Carrier licence fee liabilities	**–**	**(182)**	**(442)**	**(350)**	**(974)**	**(736)**
Other long-term liabilities	**(3)**	**(26)**	**(3)**	**(53)**	**(85)**	**(51)**
	(414)	**(2,925)**	**(14,051)**	**(403)**	**(17,793)**	**(16,431)**
Total	**(14,611)**	**(2,925)**	**(14,051)**	**(403)**	**(31,990)**	**(30,405)**

In HK$ million	The Company 2011			The Company **2012**		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying Amount	**Within 1 year or on demand**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Accruals and other payables	53	53	53	**4**	**4**	**4**
Amounts due to subsidiaries	–	–	–	**92**	**92**	**92**
Amounts due to the ultimate holding company	71	71	71	**–**	**–**	**–**
Amount due to the immediate holding company	917	917	917	**–**	**–**	**–**
Total	1,041	1,041	1,041	**96**	**96**	**96**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposures deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the Boards, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Groups.

In the normal course of business, the Groups use the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in currencies of major industrial countries.

i. Foreign currency risk

The Groups operate internationally and are exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Groups' recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Groups borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2012, a majority of the Groups' short-term and long-term borrowings denominated in United States dollars were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Groups' borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2012 with an aggregate notional contract amount of US$1,500 million (approximately HK$11,627 million) (2011: US$1,500 million (approximately HK$11,664 million)) was designated as cash flow hedges against foreign exchange rate risk.

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

The following table details the Groups' exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

In HK$ million	The Groups			
	2011		**2012**	
	United States Dollars	Renminbi	**United States Dollars**	**Renminbi**
Trade receivables	709	167	**768**	**206**
Amounts due from related companies	–	–	**–**	**11**
Cash and cash equivalents	316	353	**282**	**211**
Trade payables	(617)	(46)	**(618)**	**(40)**
Amounts due to related companies	(39)	–	**(286)**	**–**
Short-term borrowings	(31)	–	**(3,873)**	**–**
Long-term borrowings	(11,729)	–	**(7,877)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(11,391)	474	**(11,604)**	**388**
Net financial liabilities denominated in respective entities' functional currencies	(63)	(485)	**(158)**	**(390)**
Notional amounts of cross currency swap contracts designated as cash flow hedges	11,664	–	**11,627**	**–**
Overall net exposure	210	(11)	**(135)**	**(2)**

If Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2012, the profit after tax of the Groups for the year ended December 31, 2012 would have decreased/increased by approximately HK$(1.13) million (2011: HK$1.75 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2012 would have increased/decreased by approximately HK$116 million (2011: HK$117 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts.

If Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant as at December 31, 2012, there would be no material impact on the Groups' profit after tax for the year ended December 31, 2012.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet dates and had been applied to the Groups' exposure to currency risk for recognized assets and liabilities in existence at the dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2011 and 2012.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

As the Groups have no significant interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Groups have entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

The following table details the interest rate profile of the Groups' borrowings at the balance sheet dates, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	The Groups			
	2011		**2012**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term borrowings with cash flow hedging instruments	–	–	**6.13**	**3,873**
Long-term borrowings with cash flow hedging instruments	5.77	7,748	**5.42**	**3,861**
Variable rate borrowings:				
Bank borrowings	1.44	11,774	**1.61**	**12,356**
Long-term borrowings with fair value hedging instruments	4.46	3,979	**4.46**	**4,016**
Total borrowings		23,501		**24,106**

If interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points as at December 31, 2012, with all other variables held constant, the Groups' profit after tax for the year ended December 31, 2012 would have been decreased/increased by approximately HK$12 million (2011: HK$11 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet dates and had been applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the next annual balance sheet date. The analysis is performed on the same basis for the years ended December 31, 2011 and 2012.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Groups are exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 21) and financial assets at fair value through profit or loss (note 22). The investments are listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities held by the Groups, management believes that the Groups' equity price risk is minimal.

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2011 and 2012 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Groups			
	2011		**2012**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	(31)	(31)	**8,462**	**8,557**
Long-term borrowings	(23,470)	(24,618)	**15,644**	**16,090**

e. Estimation of fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for asset or liability that are not based on observable market data (level 3).

The following table presents the Groups' financial assets and liabilities that are measured at fair value:

In HK$ million	The Groups			
	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	72	–	–	72
Derivative financial instruments	–	275	–	275
Total assets	72	275	–	347

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

In HK$ million	The Groups 2012 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	**85**	**–**	**–**	**85**
Financial assets at fair value through profit or loss	**8**	**–**	**–**	**8**
Derivative financial instruments	**–**	**257**	**–**	**257**
Total assets	**93**	**257**	**–**	**350**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet dates. The quoted market price used for financial assets held by the Groups included in level 1 is the current bid price. Instruments included in level 1 comprise available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc and financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

35 COMMITMENTS

a. Capital

In HK$ million	The Groups 2011	**2012**
Authorized and contracted for	982	**926**
Authorized but not contracted for	887	**739**
	1,869	**1,665**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	The Groups 2011	**2012**
Investments	52	**62**
Acquisition of property, plant and equipment	1,817	**1,603**
	1,869	**1,665**

35 COMMITMENTS *(CONTINUED)*

b. Operating leases

As at December 31, 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Groups 2011	**2012**
Within 1 year	522	**597**
After 1 year but within 5 years	609	**915**
After 5 years	–	**11**
	1,131	**1,523**

Network capacity and equipment

In HK$ million	The Groups 2011	**2012**
Within 1 year	342	**967**
After 1 year but within 5 years	300	**600**
After 5 years	155	**305**
	797	**1,872**

Majority of the leases typically run for a period of 1 to 12 years as at December 31, 2012 (2011: 1 to 12 years). None of the leases include contingent rentals.

c. Others

As at December 31, 2012, the Groups have other outstanding commitments as follows:

In HK$ million	The Groups 2011	**2012**
Operating expenditure commitment	237	**235**
	237	**235**

36 CONTINGENT LIABILITIES

In HK$ million	The Groups 2011	**2012**
Performance guarantee	240	**280**
Others	3	**63**
	243	**343**

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

37 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2012 was HK$23,182 million (2011: HK$20,444 million) of which the unused facilities amounted to HK$10,758 million (2011: HK$8,559 million).

Security pledged for certain banking facilities includes:

In HK$ million	The Groups 2011	**2012**
Property, plant and equipment	23	–
Trade receivables	37	–
Bank deposit	2	–
	62	–

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' balance sheet ratios, as are commonly found in lending arrangement with financial institutions. If the Groups were to breach the covenants the drawn down facilities would become payable on demand. The Groups' regularly monitors its compliance with these covenants. As at December 31, 2012, none of the covenants relating to drawn down facilities was breached. Further details of the Groups' management of liquidity risk are set out in note 34(b).

Summaries of major borrowings are set out in notes 24(c) and 25.

38 BUSINESS COMBINATIONS

On August 31, 2012 the Groups acquired 100 per cent of the share capital of Gateway Communications (UK) Limited, Gateway Communications S.A., Gateway Communications S.A.S., Gateway Communications Mozambique Limitada, Gateway Communications (Proprietary) Limited, and certain assets and liabilities of Gateway Communications Africa (UK) Limited (the "Gateway Group"), companies incorporated in United Kingdom, Belgium, France, Mozambique, South Africa, and United Kingdom, respectively. The purpose of the acquisition is to expand the Groups' international voice and data services. The acquirees' business covers the provision of international voice services and data services. The Groups made a payment for acquisition totaling HK$268 million in cash.

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

In HK$ million	**2012**
Purchase consideration settled in cash	**268**
Less: Estimated fair value of net assets acquired	**(260)**
Obligation assumed upon business combinations	**121**
Goodwill on acquisition *(note 17)*	**129**

The goodwill is attributable to future profit generated from the provision of international voice services and data services.

The Groups are required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Groups have used the estimated fair values of the acquired assets and liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. This allocation of the purchase price allocation to the acquired assets and liabilities is provisional and will be adjusted in the Groups' 2013 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2013.

38 BUSINESS COMBINATIONS *(CONTINUED)*

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

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

In HK$ million	Estimated Fair Value	Carrying Amount
Property, plant and equipment	**178**	**178**
Intangible assets	**118**	**–**
Trade receivables, prepayments, deposits and other current assets	**927**	**927**
Cash and cash equivalents	**41**	**41**
Trade payables, accruals, other payables and advances from customers	**(1,001)**	**(1,001)**
Current income tax liabilities	**(1)**	**(1)**
Deferred income tax liabilities	**(2)**	**(2)**
Net assets acquired	**260**	**142**
Obligation assumed upon business combinations	**121**	**121**

In HK$ million	Net cash outflow
Purchase consideration settled in cash	**(268)**
Cash and cash equivalents of Gateway Group acquired	**41**
	(227)
Settlement of obligation assumed upon business combinations	**(121)**

(ii) Acquisition-related costs

Acquisition-related costs of HK$12 million are included in the consolidated income statement for the year ended December 31, 2012.

(iii) Revenue and profit contribution

The business of Gateway Group has been integrated into the business of the Groups since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of the Gateway Group to the revenue and profit of the Groups during the year ended December 31, 2012 on a reasonable basis.

39 TRANSACTION WITH NON-CONTROLLING INTERESTS

In HK$ million	The Groups 2011	**2012**
Consideration paid to non-controlling interests for an increase in ownership in a subsidiary	–	**5**
Less: Carrying amount of non-controlling interests acquired	–	**(3)**
Excess of consideration paid recognized in the transactions with non-controlling interests within equity	–	**2**

During the year, the Groups acquired 30% and 15% of the issued shares of two subsidiaries of IP BPO Holdings Pte. Ltd., PCCW Teleservices (Philippines) Inc. and PCCW Teleservices (US) Inc. respectively, for an aggregate purchase consideration of approximately HK$5 million. The aggregate carrying amount of the non-controlling interests in PCCW Teleservices (Philippines) Inc. and PCCW Teleservices (US) Inc. on the dates of acquisition was approximately HK$3 million. The Groups recognized a decrease in equity attributable to the holders of Share Stapled Units/shares of the Company of approximately HK$2 million.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2012

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2012 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements	July 1, 2012
HKFRS 1 (Revised) (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	January 1, 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
HKFRS 10	Consolidated Financial Statements	January 1, 2013
HKFRS 10 (Amendment)	Consolidated Financial Statements – Transition Disclosures	January 1, 2013
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HKFRS 11 (Amendment)	Joint Arrangements – Transition Disclosures	January 1, 2013
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HKFRS 12 (Amendment)	Disclosures of Interests in Other Entities – Transition Disclosures	January 1, 2013
HKFRS 13	Fair value measurements	January 1, 2013
HKAS 19 (2011)	Employee benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
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HKFRS 9	Financial Instruments	January 1, 2015
HKFRS 9 (Amendment)	Financial Instruments – Mandatory Effective Date and Transition Disclosures	January 1, 2015
Annual Improvements 2009-2011	Cycle published in June 2012 by HKICPA	January 1, 2013

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the year ended December 31, 2012 and have not been adopted in these financial statements.

The Groups are in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Groups' results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2012

Results

In HK$ million	2008[1]	2009	2010	2011	**2012**
Turnover by Principal Activity					
Telecommunications Services	6,827	15,646	16,021	17,048	**17,931**
Mobile	288	1,670	1,709	1,967	**2,466**
Other businesses	86	631	797	810	**684**
	7,201	17,947	18,527	19,825	**21,081**
Cost of sales	(2,306)	(6,642)	(7,451)	(8,149)	**(9,027)**
General and administrative expenses	(4,309)	(7,981)	(8,131)	(8,510)	**(9,073)**
Other gains/(losses), net	63	–	40	(28)	**18**
Losses on property, plant and equipment	–	(25)	–	–	**–**
Finance costs, net	(240)	(1,468)	(1,562)	(1,504)	**(805)**
Share of results of equity accounted entities	–	–	(73)	(19)	**(79)**
Profit before income tax	409	1,831	1,350	1,615	**2,115**
Income tax	(132)	(480)	(378)	(344)	**(455)**
Profit for the year	277	1,351	972	1,271	**1,660**
Attributable to:					
Holders of Share Stapled Units/shares of the Company	274	1,316	925	1,221	**1,610**
Non-controlling interests	3	35	47	50	**50**

Assets and Liabilities

As at 31 December in HK$ million	2008	2009	2010	2011	**2012**
Total non-current assets	58,960	58,056	57,213	56,854	**56,810**
Total current assets	5,219	6,214	10,454	8,184	**9,563**
Total current liabilities	(12,808)	(8,134)	(17,233)	(6,862)	**(16,005)**
Net current (liabilities)/assets	(7,589)	(1,920)	(6,779)	1,322	**(6,442)**
Total assets less current liabilities	51,371	56,136	50,434	58,176	**50,368**
Total non-current liabilities	(34,283)	(37,633)	(30,921)	(27,243)	**(19,251)**
Net assets	17,088	18,503	19,513	30,933	**31,117**

Note:

(1) The Groups completed the acquisition of the Telecommunications Business under HKTGH in the fourth quarter of 2008 and the results were consolidated by the Groups from the date of acquisition. As such, the Groups' 2008 consolidated results only included the partial year results of the Telecommunications Business and were not directly comparable to the results for the years ended December 31, 2009, 2010, 2011, and 2012.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HKT Management Limited (the "Company") set out on pages 151 to 159, which comprise the balance sheet as at December 31, 2012, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2012 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 26, 2013

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

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2012

In HK$'000	Note	For the period from June 14, 2011 (date of incorporation) to December 31, 2011	**Year ended December 31, 2012**
Management fee income		–	**27**
General and administrative expenses		–	**(40)**
Loss before income tax	5	–	**(13)**
Income tax	6	–	**–**
Loss for the period/year		–	**(13)**

The notes on pages 156 to 159 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2012

In HK$'000	For the period from June 14, 2011 (date of incorporation) to December 31, 2011	**Year ended December 31, 2012**
Loss for the period/year	–	**(13)**
Other comprehensive income	–	**–**
Total comprehensive expense for the period/year	–	**(13)**

The notes on pages 156 to 159 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2012

In HK$'000	2011		
	Share capital	Retained profits	Total
As at June 14, 2011 (date of incorporation)	–	–	–
Comprehensive income			
Results for the period	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the period	–	–	–
Transactions with the equity owner of the Company	–	–	–
As at December 31, 2011	–	–	–

In HK$'000	**2012**		
	Share capital	**Deficit**	**Total**
As at January 1, 2012	**–**	**–**	**–**
Comprehensive expense			
Loss for the year	**–**	**(13)**	**(13)**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive expense for the year	**–**	**(13)**	**(13)**
Transactions with the equity owner of the Company	**–**	**–**	**–**
As at December 31, 2012	**–**	**(13)**	**(13)**

The notes on pages 156 to 159 form part of these financial statements.

BALANCE SHEET OF HKT MANAGEMENT LIMITED

As at December 31, 2012

In HK$'000	Note	2011	**2012**
ASSETS AND LIABILITIES			
Current assets			
Amount due from a fellow subsidiary	4(c)	–	**26**
		–	**26**
Current liabilities			
Accruals and other payables		–	**39**
		–	**39**
Net current liabilities		–	**(13)**
Net liabilities		–	**(13)**
CAPITAL AND RESERVES			
Share capital	7	–	**–**
Deficit		–	**(13)**
Total equity		–	**(13)**

Approved and authorized for issue by the Board of Directors on February 26, 2013 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 156 to 159 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2012

In HK$'000	For the period from June 14, 2011 (date of incorporation) to June 30, 2011	**Year ended December 31, 2012**
Operating activities		
Loss before income tax	–	**(13)**
Adjustments for:		
Increase in amount due from a fellow subsidiary	–	**(26)**
Increase in accruals and other payables	–	**39**
Net cash generated from operating activities	–	**–**
Investing activities		
Net cash used in investing activities	–	**–**
Financing activities		
Net cash used in financing activities	–	**–**
Net change in cash and cash equivalents	–	**–**
Cash and cash equivalents		
Beginning of period/year	–	**–**
End of period/year	–	**–**

The notes on pages 156 to 159 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HKT MANAGEMENT LIMITED

December 31, 2012

1 GENERAL INFORMATION

HKT Management Limited (the "Company") was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on the Stock Exchange of Hong Kong Limited.

The Company has a limited and specific role, which is to administer the HKT Trust.

During the period from June 14, 2011 (date of incorporation) to December 31, 2011, the Company did not incur any costs for administering the HKT Trust and therefore has not recognized any expenses.

The financial statements are presented in thousands units of Hong Kong dollars (HK$'000), which is the presentation and functional currency of the Company, unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Company is set out below.

b. Basis of preparation of the financial statements

The Company has not adopted any new standard or interpretation that is not effective for the current accounting period, details of which are set out in note 10.

The measurement basis used in the preparation of the financial statements is historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3.

c. Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased.

– intercompany receivables

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

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

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

d. Related parties

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

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

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transaction with a related party:

In HK$'000	For the period from June 14, 2011 (date of Incorporation) to December 31, 2011	**Year ended December 31, 2012**
Management fee refund from a fellow subsidiary	–	**27**

a. This transaction was carried out after negotiations between the Company and the related party in the ordinary course of business and on the basis of estimated market value as determined by the directors.

b. The directors' emoluments of the Company were borne by a fellow subsidiary of the Company for the period from June 14, 2011 (date of incorporation) to December 31, 2011 and the year ended December 31, 2012.

c. The balances with fellow subsidiaries are unsecured, non-interest bearing and receivable/payable on demand.

d. The auditor's remuneration of the Company was borne by a fellow subsidiary of the Company for the period from 14 June 2011 (date of incorporation) to 31 December 2011.

5 LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging the following:

In HK$'000	For the period from June 14, 2011 (date of incorporation) to December 31, 2011	**Year ended December 31, 2012**
Charging:		
Auditor's remuneration	–	**39**

6 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the period from 14 June 2011 (date of incorporation) to 31 December 2011 and the year ended December 31, 2012.

No deferred income tax asset and liability was recognized as at 31 December 2011 and 2012.

7 SHARE CAPITAL

	2011		**2012**	
	Number of Shares	Nominal Value HK$	**Number of Shares**	**Nominal Value HK$**
Authorized:				
Ordinary shares of HK$1 each				
Beginning and end of period	10,000	10,000	**10,000**	**10,000**
Issued and fully paid:				
Ordinary shares of HK$1 each				
Beginning of period	–	–	**1**	**1**
Issue of ordinary shares during the period	1	1	**–**	**–**
End of period	1	1	**1**	**1**

8 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

9 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk). Risk management is carried out under policies approved by the Board of Directors.

10 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUALACCOUNTING YEAR ENDED DECEMBER 31, 2012

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Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended 31 December 2012 and have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Company's results of operations and financial position.

CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

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

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong

ANNUAL REPORT 2012

This Annual Report 2012 in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Holders of share stapled units who:

A) received the Annual Report 2012 using electronic means through the website of HKT Limited may request a printed copy, or
B) received the Annual Report 2012 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to HKT Limited and/or HKT Management Limited c/o the Share Stapled Units Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: hkt@computershare.com.hk

Holders of share stapled units who have chosen (or are deemed to have agreed) to receive the corporate communications of the HKT Trust, HKT Limited and HKT Management Limited (including but not limited to the Annual Report 2012) using electronic means through the website of HKT Limited and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2012 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2012 in printed form, free of charge.

Holders of share stapled units may change their choice of language and/or means of receipt of future corporate communications of the HKT Trust, HKT Limited and HKT Management Limited at any time, free of charge, by reasonable prior notice in writing or by email to the Share Stapled Units Registrar.

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited.

STOCK CODES

The Stock Exchange of Hong Kong Limited	6823
Reuters	6823.HK
Bloomberg	6823 HK

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)

(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

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

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

39th Floor, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

SHARE STAPLED UNITS REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

SHARE STAPLED UNITS INFORMATION

Board lot:	1,000 units
Issued units as at December 31, 2012:	6,416,730,792 units

DIVIDEND/DISTRIBUTION

Dividends/distributions per ordinary share/share stapled unit for the year ended December 31, 2012:

Interim	20.06 HK cents
Final	21.58 HK cents

FINANCIAL CALENDAR

Announcement of 2012 Annual Results	February 26, 2013
Closure of books	May 16-20, 2013 (both days inclusive)
Record date for 2012 final distribution	May 20, 2013
Payment of 2012 final distribution	on or around May 28, 2013

INVESTOR RELATIONS

For more information, please contact Investor Relations at:
Telephone: +852 2514 5084
Email: ir@hkt.com

WEBSITE OF HKT LIMITED

www.hkt.com

Forward-Looking Statements

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

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new legislation, regulations, guidelines, decisions or directives;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions and challenges in growing business organically.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of HKT as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and
HKT Limited (Incorporated in the Cayman Islands with limited liability)

Principal Place of Business in Hong Kong:
39/F, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
T: +852 2888 2888 F: +852 2877 8877 www.hkt.com

The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).