HKT Trust

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

and

HKT Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6823)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached financial statements of HKT Group Holdings Limited ("HKTGH"), Hong Kong Telecommunications (HKT) Limited ("HKTL"), and PCCW-HKT Telephone Limited ("HKTC") for the year ended December 31, 2013, which have been published on the website of the Singapore Exchange Securities Trading Limited on May 8, 2014.

HKTGH and HKTL are key operating wholly-owned subsidiaries of HKT Limited and non-wholly owned subsidiaries of PCCW Limited. HKTC is a wholly-owned subsidiary of PCCW Limited.

HKTGH and its subsidiaries (the "HKTGH Group") provide 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 and elsewhere in the Asia Pacific region. Revenues of the HKTGH Group accounted for approximately 100% and 84% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTL is a wholly-owned subsidiary of HKTGH and HKT Limited, and a non-wholly owned subsidiary of PCCW Limited. HKTL and its subsidiaries (the "HKTL Group") mainly provide wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment. Revenues of the HKTL Group accounted for approximately 58% and 49% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTC did not conduct any trading activities for the year ended December 31, 2013.

By order of the boards of
HKT Management Limited
and
HKT Limited
Philana WY Poon
Group General Counsel and Company Secretary

Hong Kong, May 8, 2014

As at the date of this announcement, the directors of HKT Management Limited and HKT Limited are as follows:

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

Non-Executive Directors:
Peter Anthony Allen; Chung Cho Yee, Mico; Lu Yimin and 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 and Sunil Varma

May 2, 2014

US$500,000,000 5.25% guaranteed notes due 2015 issued by PCCW-HKT Capital No.3 Limited and guaranteed by HKT Group Holdings Limited, Hong Kong Telecommunications (HKT) Limited and PCCW-HKT Telephone Limited

To bondholders:

Please find attached the financial statements of HKT Group Holdings Limited ("HKTGH"), Hong Kong Telecommunications (HKT) Limited ("HKTL"), and PCCW-HKT Telephone Limited ("HKTC") for the year ended December 31, 2013 for your reference.

HKTGH and HKTL are key operating wholly owned subsidiaries of HKT Limited and non-wholly owned subsidiaries of PCCW Limited. HKTC is a wholly-owned subsidiary of PCCW Limited.

HKTGH and its subsidiaries (the "HKTGH Group") provide 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 and elsewhere in the Asia Pacific region. Revenues of the HKTGH Group accounted for approximately 100% and 84% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTL is a wholly-owned subsidiary of HKTGH and HKT Limited, and a non-wholly owned subsidiary of PCCW Limited. HKTL and its subsidiaries (the "HKTL Group") mainly provide wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment. Revenues of the HKTL Group accounted for approximately 58% and 49% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTC did not conduct any trading activities for the year ended December 31, 2013.

If you have any questions, please do not hesitate to contact us.

Regards,

Investor Relations
PCCW Limited / HKT Limited
Tel: (852) 2514-5084
Email: ir@pccw.com / ir@hkt.com

HKT Here To Serve

May 2, 2014

US$500,000,000 4.25% guaranteed notes due 2016 issued by PCCW-HKT Capital No.4 Limited and guaranteed by HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited

To bondholders:

Please find attached the financial statements of HKT Group Holdings Limited ("HKTGH") and Hong Kong Telecommunications (HKT) Limited ("HKTL") for the year ended December 31, 2013 for your reference.

HKTGH and HKTL are key operating wholly owned subsidiaries of HKT Limited and non-wholly owned subsidiaries of PCCW Limited.

HKTGH and its subsidiaries (the "HKTGH Group") provide 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 and elsewhere in the Asia Pacific region. Revenues of the HKTGH Group accounted for approximately 100% and 84% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTL is a wholly-owned subsidiary of HKTGH and HKT Limited, and a non-wholly owned subsidiary of PCCW Limited. HKTL and its subsidiaries (the "HKTL Group") mainly provide wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment. Revenues of the HKTL Group accounted for approximately 58% and 49% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

If you have any questions, please do not hesitate to contact us.

Regards,

Investor Relations
HKT Limited
Tel: (852) 2514-5084
Email: ir@hkt.com

HKT Here To Serve

May 2, 2014

US$500,000,000 3.75% guaranteed notes due 2023 issued by PCCW-HKT Capital No.5 Limited and guaranteed by HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited

To bondholders:

Please find attached the financial statements of HKT Group Holdings Limited ("HKTGH") and Hong Kong Telecommunications (HKT) Limited ("HKTL") for the year ended December 31, 2013 for your reference.

HKTGH and HKTL are key operating wholly owned subsidiaries of HKT Limited and non-wholly owned subsidiaries of PCCW Limited.

HKTGH and its subsidiaries (the "HKTGH Group") provide 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 and elsewhere in the Asia Pacific region. Revenues of the HKTGH Group accounted for approximately 100% and 84% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

HKTL is a wholly-owned subsidiary of HKTGH and HKT Limited, and a non-wholly owned subsidiary of PCCW Limited. HKTL and its subsidiaries (the "HKTL Group") mainly provide wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment. Revenues of the HKTL Group accounted for approximately 58% and 49% of total revenues of HKT Limited and PCCW Limited, respectively, for the year ended December 31, 2013.

If you have any questions, please do not hesitate to contact us.

Regards,

Investor Relations
HKT Limited
Tel: (852) 2514-5084
Email: ir@hkt.com

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2013

pwc

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of HKT Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 2 to 76, which comprise the consolidated and the Company balance sheets as at December 31, 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at December 31, 2013, and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 4, 2014

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
Turnover	5	21,081	**22,832**
Cost of sales		(9,027)	**(10,117)**
General and administrative expenses		(9,067)	**(9,495)**
Other gains, net	7	20	**84**
Finance costs, net	9	(851)	**(871)**
Share of results of an associate	18	(35)	**(24)**
Share of results of joint ventures	19	(44)	**85**
Profit before income tax	8	2,077	**2,494**
Income tax	11	(449)	**(11)**
Profit for the year		1,628	**2,483**
Attributable to:			
- Equity holders of the Company		1,578	**2,444**
- Non-controlling interests		50	**39**
Profit for the year		1,628	**2,483**

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	2012	**2013**
Profit for the year	1,628	**2,483**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Translation exchange differences		
- exchange differences on translating foreign operations	98	**(42)**
Available-for-sale financial assets:		
- changes in fair value	13	**86**
Cash flow hedges:		
- effective portion of changes in fair value	(54)	**(10)**
- transfer from equity to consolidated income statement	19	**(53)**
Other comprehensive income for the year	76	**(19)**
Total comprehensive income for the year	1,704	**2,464**
Attributable to:		
- Equity holders of the Company	1,654	**2,425**
- Non-controlling interests	50	**39**
Total comprehensive income for the year	1,704	**2,464**

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Note(s)	2012 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2012		22,952	177	23,129
Comprehensive income				
Profit for the year		1,578	50	1,628
Other comprehensive income				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
- 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
Total other comprehensive income		76	-	76
Total comprehensive income for the year		**1,654**	**50**	**1,704**
Transactions with equity holders				
Interim dividend declared and paid in respect of the current year	12, 27	(1,287)	-	(1,287)
Issue of an ordinary share	25	168	-	168
Dividend declared and paid to non-controlling shareholders of a subsidiary		-	(41)	(41)
Total contributions by and distributions to equity holders		(1,119)	(41)	(1,160)
Increase in interests in subsidiaries	37	(2)	(3)	(5)
Total changes in ownership interest in subsidiaries that do not result in a loss of control		(2)	(3)	(5)
Total transaction with equity holders		**(1,121)**	**(44)**	**(1,165)**
At December 31, 2012		23,485	183	23,668

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Notes	2013 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2013		**23,485**	**183**	**23,668**
Comprehensive income				
Profit for the year		**2,444**	**39**	**2,483**
Other comprehensive income				
Items that may be reclassified subsequently to consolidated income statement				
Translation exchange differences:				
- exchange differences on translating foreign operations		**(42)**	**-**	**(42)**
Available-for-sale financial assets:				
- changes in fair value		**86**	**-**	**86**
Cash flow hedges:				
- effective portion of changes in fair value		**(10)**	**-**	**(10)**
- transfer from equity to consolidated income statement		**(53)**	**-**	**(53)**
Total other comprehensive income		**(19)**	**-**	**(19)**
Total comprehensive income for the year		**2,425**	**39**	**2,464**
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Interim dividend declared and paid in respect of the current year	12, 27	**(1,348)**	**-**	**(1,348)**
Final dividend paid in respect of previous year	12, 27	**(1,385)**	**-**	**(1,385)**
Dividend declared and paid/payable to non-controlling shareholders of a subsidiary		**-**	**(40)**	**(40)**
Total transactions with equity holders		**(2,733)**	**(40)**	**(2,773)**
At December 31, 2013		**23,177**	**182**	**23,359**

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	14,227	**14,108**
Interests in leasehold land	14	303	**291**
Goodwill	15	36,025	**36,043**
Intangible assets	16	4,573	**3,892**
Interest in an associate	18	200	**207**
Interests in joint ventures	19	534	**566**
Available-for-sale financial assets	20	85	**171**
Financial assets at fair value through profit or loss	21	8	**51**
Derivative financial instruments	24	253	**67**
Deferred income tax assets	28	3	**359**
Other non-current assets		531	**556**
		56,742	**56,311**
Current assets			
Prepayments, deposits and other current assets		2,732	**3,250**
Inventories	22(a)	971	**1,018**
Trade receivables, net	22(b)	3,425	**3,000**
Amounts due from related companies	4(c)	25	**49**
Derivative financial instruments	24	4	**-**
Financial assets at fair value through profit or loss	21	8	**24**
Cash and cash equivalents	30(d)	2,398	**2,131**
		9,563	**9,472**
Current liabilities			
Short-term borrowings	22(c)	8,462	**-**
Trade payables		1,966	**1,803**
Accruals and other payables		2,539	**2,413**
Carrier licence fee liabilities	29	200	**209**
Amounts due to related companies	4(c)	135	**136**
Amounts due to fellow subsidiaries and the immediate holding company	4(c)	8,059	**7,837**
Advances from customers		1,684	**1,738**
Current income tax liabilities		341	**428**
		23,386	**14,564**
Net current liabilities		(13,823)	**(5,092)**
Total assets less current liabilities		42,919	**51,219**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
AS AT DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
Non-current liabilities			
Long-term borrowings	23	15,644	**24,022**
Derivative financial instruments	24	-	**405**
Deferred income tax liabilities	28	1,831	**1,811**
Deferred income		989	**951**
Carrier licence fee liabilities	29	736	**616**
Other long-term liabilities		51	**55**
		19,251	**27,860**
Net assets		23,668	**23,359**
CAPITAL AND RESERVES			
Share capital	25	4,961	**4,961**
Reserves	27	18,524	**18,216**
Equity attributable to equity holders of the Company		23,485	**23,177**
Non-controlling interests		183	**182**
Total equity		23,668	**23,359**

Approved and authorized for issue by the board of directors (the "Board") on April 4, 2014 and signed on behalf of the Board by

Alexander Anthony Arena	**Hui Hon Hing, Susanna**
Director	*Director*

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

BALANCE SHEET
AS AT DECEMBER 31, 2013

In HK$ million	Note	2012	2013
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	17,394	**17,394**
Current assets			
Prepayments, deposits and other current assets		-	**12**
Amounts due from subsidiaries	17	3,344	**3,317**
Amount due from the immediate holding company	4(c)	91	**91**
		3,435	**3,420**
Current liabilities			
Amounts due to subsidiaries	17	1,429	**1,429**
Net current assets		2,006	**1,991**
Net assets		19,400	**19,385**
CAPITAL AND RESERVES			
Share capital	25	4,961	**4,961**
Reserves	27	14,439	**14,424**
Total equity		19,400	**19,385**

Approved and authorized for issue by the Board on April 4, 2014 and signed on behalf of the Board by

....
Alexander Anthony Arena
Director

....
Hui Hon Hing, Susanna
Director

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
NET CASH GENERATED FROM OPERATING ACTIVITIES	30(a)	6,477	**7,148**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	**15**
Purchases of property, plant and equipment		(1,906)	**(1,980)**
Purchases of intangible assets		(1,719)	**(2,091)**
Net outflow of cash and cash equivalents in respect of additions upon business combinations	30(b)	(227)	**-**
Settlement of obligation assumed upon business combinations	30(b)	(121)	**-**
Loans to an associate		(139)	**(52)**
Repayment of loan from an associate		-	**25**
Loan to a joint venture		(71)	**(140)**
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	37	(5)	**-**
NET CASH USED IN INVESTING ACTIVITIES		(4,182)	**(4,223)**
FINANCING ACTIVITIES			
New borrowings raised		3,617	**15,905**
Interest paid		(735)	**(703)**
Repayments of borrowings		(3,075)	**(15,607)**
Decrease in amount due to the immediate holding company		(195)	**-**
Increase/(decrease) in non-trade balance due to fellow subsidiaries and the ultimate holding company		21	**(45)**
Dividends paid to the sole shareholder of the Company	12	(1,287)	**(2,733)**
Dividend paid to non-controlling shareholders of a subsidiary		(41)	**(3)**
NET CASH USED IN FINANCING ACTIVITIES		(1,695)	**(3,186)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		600	**(261)**
Exchange differences		5	**(6)**
CASH AND CASH EQUIVALENTS			
Beginning of year		1,793	**2,398**
End of year		2,398	**2,131**

The notes on pages 10 to 76 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The principal activities of the Company and its subsidiaries (collectively, the "Group") are 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").

These consolidated financial statements are presented in millions of units of Hong Kong dollars (HK$ million), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on April 4, 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These 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").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations, in the preparation of the consolidated financial statements.

- Amendment to HKAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Since the change in accounting standard only affects the presentation aspects of the financial statements, there is no impact on earnings per share. These consolidated financial statements for the year ended December 31, 2013 have been prepared under the revised disclosure requirements.

- HKFRS 12, 'Disclosures of Interests in Other Entities' provide the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Please refer to notes 3(ix), 17, 18 and 19 for further details of the required disclosure for interests in other entities as at December 31, 2013.

- HKFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned with other HKFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. These consolidated financial statements have been prepared under the revised disclosure requirements.

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

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2013, but have no material effect on the Group's results and financial position for the current and prior years:

- HKAS 19 (2011), Employee Benefits.
- HKAS 27 (2011), Separate Financial Statements.
- HKAS 28 (2011), Investments in Associates and Joint Ventures.
- HKFRS 1 (Revised) (Amendment), Accounting for Government Loans.
- HKFRS 7 (Amendment), Offsetting Financial Assets and Financial Liabilities.
- HKFRS 10, Consolidated Financial Statements.
- HKFRS 10 (Amendment), Transition Disclosures.
- HKFRS 11, Joint Arrangements.
- HKFRS 11 (Amendment), Transition Disclosures.
- HKFRS 12 (Amendment), Transition Disclosures.
- HK(IFRIC) – Int 20, Stripping Costs in the Production Phase of a Surface Mine.
- Annual Improvements 2009-2011 Cycle published in June 2012 by HKICPA.

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting year, details of which are set out in note 39.

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 36).

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

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

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

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

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

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

In the Company's balance sheet, interests in subsidiaries are stated at cost less impairment losses (see note 2(l)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

An associate is an entity in which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

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

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

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

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

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

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

e. Joint arrangements

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

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

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

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

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

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

f. Gaining or losing control

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in investor profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as joint venture, associates or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to 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 2(l)(ii)):

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

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

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

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

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

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

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

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

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

h. Leased assets

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

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

ii. Assets leased out under operating leases
Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(u)(iii).

iii. Operating lease charges
Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting years 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.

i. Goodwill

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

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

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

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

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Group and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual years. By the end of the minimum enforceable contractual year, 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 year, 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 year of the licence and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Where the Group has the right to return a licence and expect to do so, the asset and the related obligation recorded reflect the expected year 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 year in which it is incurred using the effective interest method.

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

iii. Software

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

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

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

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

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

iv. Other intangible assets

Other intangible assets that are acquired by the Group is stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(l)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the year 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.

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

k. Investments in equity securities

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

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

i. Financial assets at fair value through profit or loss

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

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

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 gains, net' in the consolidated income statement in the year 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 2(u)(v) and 2(u)(vii) respectively. Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Group intends to dispose of the investment within 12 months from the 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 2(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 2(u)(vii). When the investments are derecognized or impaired (see note 2(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

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

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 joint ventures: see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at 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 Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

2 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 year 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 Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the consolidated income statement.

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 joint ventures;

– goodwill; and

– interests in subsidiaries (at Company level).

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

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

l. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

– 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 year in which the reversals are recognized.

m. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at 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 2(n)).

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

n. Hedging

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

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

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

n. Hedging *(continued)*

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 year or years 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 year or years during which the hedged forecast transaction affects the consolidated income statement.

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

o. Inventories

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

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

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

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

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

p. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)(i)).

q. Cash and cash equivalents

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

r. Trade and other payables

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

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

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 year of the borrowings, using the effective interest method.

t. Provisions and contingent liabilities

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

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

u. Revenue recognition

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

i. Telecommunications and other services

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

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

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

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

ii. Sales of goods

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

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the years 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 year 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.

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

u. Revenue recognition *(continued)*

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

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

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

w. Income tax

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

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the 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 year as the expected reversal of the deductible temporary difference or in years 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 year, or years, 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.

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

w. Income tax *(continued)*

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

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

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

  - the same taxable entity; or

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

x. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

iii. Share-based payments

PCCW, the HKT Trust and HKT operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices, and accounted for as equity-settled share-based payments. 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 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 year 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 board of directors of PCCW and the boards of directors of HKT Management Limited (the trustee-manager of the HKT Trust) and HKT may also grant shares of PCCW and Share Stapled Units (as the case may be), respectively, to employees of the participating subsidiaries of PCCW, HKT and the HKT Trust at nil consideration under their share award schemes, under which the awarded shares or Share Stapled Units are either newly issued at par value (the "PCCW Subscription Scheme" and the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "PCCW Purchase Scheme" and the "HKT Share Stapled Units Purchase Scheme").

For the PCCW Subscription Scheme and the HKT Share Stapled Units Subscription Scheme, it is accounted for as equity-settled share-based payment. The fair values of the awarded PCCW shares and Share Stapled Units are measured by the quoted market prices of PCCW shares and Share Stapled Units at grant date. The fair values of the employee services received in exchange for the grant of PCCW shares and Share Stapled Units are recognized as staff costs in the consolidated income statement over the respective vesting year with a corresponding increase in the capital contribution from shareholders in respect of employee share-based compensation under equity.

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

x. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

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

Shares of PCCW granted to employees of the Group by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under the share award schemes of PCCW as described above. The fair value of the PCCW shares granted by the 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 year, 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 Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Group's functional and the Group's presentation currency.

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the 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.

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.

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

z. Related parties

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

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

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

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

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

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

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

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

aa. Segment reporting

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

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

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

bb. Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

i. Recognition and fair value of identifiable intangible assets through business combination *(continued)*

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 year. 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 Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interests in an associate and joint ventures;
- goodwill, and
- interests in subsidiaries (at Company level)

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

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

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

iii. Revenue recognition

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

iii. Revenue recognition *(continued)*

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

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

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

iv. Deferred income tax

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

v. Current income tax

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

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

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

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

During the year ended December 31, 2013, the Group performed a review to reassess the useful lives of certain exchange equipment and transmission plant of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from January 1, 2013. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2013 increased by HK$87 million and the net assets as at December 31, 2013 increased by HK$87 million.

vii. Recognition of intangible asset – carrier licences

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

viii. Consolidation of entities in which the Group holds less than 50% equity interest

The directors of the Group made significant judgements that Unihub China Information Technology Company Limited is controlled by the Group, even though the Group holds less than 50% equity interest of the subsidiary as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors.

ix. Classification of joint arrangements

The Group has made investments in joint arrangements 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. Therefore these joint arrangements are classified as joint ventures of the Group.

4 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note(s)	Group 2012	Group **2013**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	(a)	141	**249**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	(a)	126	**127**
Telecommunications service fees and interest income received or receivable from joint ventures	(a)	53	**33**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a joint venture	(a)	315	**287**
Consultancy service charges and interest income received or receivable from an associate	(a)	17	**18**
Telecommunications service fees, IT and logistics charge, management fee and other recharge costs received or receivable from fellow subsidiaries	(a)	627	**774**
Telecommunication service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	(a)	1,487	**1,479**
Rental and facilities management charges paid or payable to fellow subsidiaries	(a)	130	**140**
Interest paid/payable to the immediate holding company	(a) & (c)	46	**39**

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

b. Key management compensation

In HK$ million	Group 2012	Group **2013**
Salaries, other short-term employee benefits and post-employment benefits	44	**56**

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

The balances included in the amounts due to the immediate holding company and fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms, except for the loan payable to the immediate holding company of HK$7,437 million as at December 31, 2013 (2012: HK$7,437 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2012: HIBOR plus 0.3%) and repayable within one year.

The balances included in the net amounts due to related companies are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2012 and 2013.

5 TURNOVER

In HK$ million	Group 2012	Group **2013**
Telecommunications and other service revenue	18,439	**20,257**
Sales of goods	2,610	**2,536**
Rental income	32	**39**
	21,081	**22,832**

6 SEGMENT INFORMATION

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

The CODM considers the business from 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 Group's mobile telecommunications businesses in Hong Kong.
- Other businesses of the Group 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 joint ventures and the Group's share of results of an associate and joint ventures.

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

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

In HK$ million	Group 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	(187)	-	7,675
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

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million			**Group 2013**		
	TSS	**Mobile**	**Other businesses**	**Eliminations**	**Total**
Revenue					
External revenue	**19,497**	**2,647**	**688**	**-**	**22,832**
Inter-segment revenue	**478**	**-**	**-**	**(478)**	**-**
Total revenue	**19,975**	**2,647**	**688**	**(478)**	**22,832**
Results					
EBITDA	**7,264**	**851**	**(208)**	**-**	**7,907**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**1,575**	**361**	**89**	**-**	**2,025**

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

In HK$ million	Group 2012	**2013**
Total segment EBITDA	7,675	**7,907**
Gain on disposals of property, plant and equipment, net	-	**13**
Depreciation and amortization	(4,688)	**(4,700)**
Other gains, net	20	**84**
Finance costs, net	(851)	**(871)**
Share of results of joint ventures	(44)	**85**
Share of results of an associate	(35)	**(24)**
Profit before income tax	2,077	**2,494**

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

In HK$ million	Group 2012	**2013**
Hong Kong	17,863	**19,048**
The PRC (excluding Hong Kong) and Taiwan	1,459	**1,375**
Others	1,759	**2,409**
	21,081	**22,832**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$52,943 million as at December 31, 2013 (2012: HK$53,357 million). The total of these non-current assets located in other countries are HK$2,720 million as at December 31, 2013 (2012: HK$3,036 million).

7 OTHER GAINS, NET

In HK$ million	Group 2012	2013
Net gain on cash flow hedging instruments transferred from equity	19	**21**
Net gain on fair value hedging instruments	-	**42**
Recovery of impairment loss on an interest in a joint venture	-	**22**
Others	1	**(1)**
	20	**84**

8 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

a. Staff costs

In HK$ million	Group 2012	2013
Salaries, bonuses and other benefits	1,416	**1,755**
Share-based compensation	9	**26**
Retirement costs for staff under defined contribution retirement schemes	198	**206**
	1,623	**1,987**

b. Other items

In HK$ million	Group 2012	2013
Crediting:		
Gross rental income	32	**39**
Gain on disposal of property, plant and equipment, net	-	**13**
Charging:		
Impairment loss for doubtful debts	138	**129**
Provision/(write back on provision) for inventory obsolescence	5	**(8)**
Depreciation of property, plant and equipment	2,229	**2,076**
Amortization of land lease premium	13	**12**
Amortization of intangible assets	2,446	**2,612**
Cost of inventories sold	2,547	**2,394**
Cost of sales, excluding inventories sold	6,480	**7,723**
Exchange (gains)/losses, net	(26)	**(8)**
Cash flow hedges: transferred from equity	37	**(10)**
Auditor’s remuneration	7	**10**
Operating lease rental		
- equipment	54	**71**
- other assets (including property rentals)	744	**835**

9 FINANCE COSTS, NET

In HK$ million	Group 2012	**2013**
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	(265)	**(301)**
Other borrowings wholly repayable within 5 years	(525)	**(467)**
Other borrowings not wholly payable within 5 years	-	**(100)**
Notional accretion on carrier licence fee liabilities	(68)	**(60)**
Other borrowing costs	(52)	**(44)**
Cash flow hedges: transferred from equity	(1)	**(1)**
(Losses)/gains on fair value hedges (note (a))	(4)	**5**
	(915)	**(968)**
Interest capitalized in property, plant and equipment (note (b))	39	**45**
Total finance costs	(876)	**(923)**
Interest income	25	**52**
Finance costs, net	(851)	**(871)**

a. (Losses)/gains on fair value hedges represents fair value losses on derivative financial instruments on fair value hedges of HK$457 million (2012: gain of HK$38 million) and fair value credit adjustment of borrowings attributable to interest rate risk of HK$462 million (2012: charge of HK$42 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.68% to 4.50% for the year ended December 31, 2013 (2012: 4.54% to 4.70%).

10 DIRECTORS' EMOLUMENTS

The salaries and other short-term employee benefits and post-employment benefits of approximately HK$54,365,000 and HK$2,080,000 (2012: HK$41,530,000 and HK$2,080,000) respectively cover the compensation for three directors of the Company for the year (2012: three)

11 INCOME TAX

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

In HK$ million	Group 2012	**2013**
Hong Kong profits tax		
- provision for current year	(573)	**(360)**
- overprovision for prior year	3	**-**
Overseas tax		
- provision for current year	(41)	**(39)**
- under provision for prior year	-	**(7)**
Movement of deferred income tax (note 28(a))	162	**395**
	(449)	**(11)**

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year.

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

11 INCOME TAX *(CONTINUED)*

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

In HK$ million	Group 2012	**2013**
Profit before income tax	2,077	**2,494**
Notional tax on profit before income tax, calculated at applicable tax rate	(343)	**(412)**
Effect of different tax rates of subsidiaries operating overseas	(41)	**(15)**
Income not subject to tax	1	**6**
Expenses not deductible for tax purposes	(3)	**(25)**
Tax losses not recognized	(74)	**(15)**
Overprovision/(underprovision) in respect of prior year	3	**(7)**
Utilization of previously unrecognized tax losses	21	**88**
Recognition of previously unrecognized tax losses	-	**362**
Recognition of previously unrecognized temporary differences	-	**(3)**
(Loss not deductible)/Income not subject to tax for an associate and joint ventures	(13)	**10**
Income tax expense	(449)	**(11)**

12 DIVIDENDS

In HK$ million	2012	**2013**
First interim dividend declared and paid in respect of the current year	1,287	**1,348**
Final dividend declared and paid during the year in respect of the previous financial year	-	**1,385**
Final dividend declared after the balance sheet date	1,385	**-**
Second interim dividend declared after the balance sheet date	-	**1,553**

Dividends declared after the balance sheet date have not been recognized as liabilities as at the balance sheet date.

13 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	Group 2012					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,077	18,991	19,281	9,472	640	49,461
Additions	-	232	174	260	1,279	1,945
Additions upon business combinations (note 36)	-	41	121	16	-	178
Transfers	-	220	118	87	(425)	-
Transfer to inventory	-	(49)	-	-	-	(49)
Disposals	-	(542)	(11)	(101)	-	(654)
Exchange differences	-	57	81	4	-	142
End of year	1,077	18,950	19,764	9,738	1,494	51,023
Accumulated depreciation and impairment						
Beginning of year	531	15,523	12,149	7,005	-	35,208
Charge for the year	20	922	835	452	-	2,229
Transfers	-	-	-	-	-	-
Transfer to inventory	-	(49)	-	-	-	(49)
Disposals	-	(541)	(11)	(96)	-	(648)
Exchange differences	-	52	6	(2)	-	56
End of year	551	15,907	12,979	7,359	-	36,796
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

In HK$ million	**Group 2013**					
	Buildings	**Exchange Equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,077**	**18,950**	**19,764**	**9,738**	**1,494**	**51,023**
Additions	**-**	**497**	**147**	**209**	**1,172**	**2,025**
Transfers	**-**	**341**	**627**	**245**	**(1,213)**	**-**
Disposals	**(3)**	**(552)**	**(35)**	**(27)**	**-**	**(617)**
Exchange differences	**-**	**(8)**	**(75)**	**(3)**	**-**	**(86)**
End of year	**1,074**	**19,228**	**20,428**	**10,162**	**1,453**	**52,345**
Accumulated depreciation and impairment						
Beginning of year	**551**	**15,907**	**12,979**	**7,359**	**-**	**36,796**
Charge for the year	**20**	**792**	**818**	**446**	**-**	**2,076**
Disposals	**(1)**	**(552)**	**(35)**	**(27)**	**-**	**(615)**
Exchange differences	**-**	**(2)**	**(15)**	**(3)**	**-**	**(20)**
End of year	**570**	**16,145**	**13,747**	**7,775**	**-**	**38,237**
Net book value						
End of year	**504**	**3,083**	**6,681**	**2,387**	**1,453**	**14,108**
Beginning of year	**526**	**3,043**	**6,785**	**2,379**	**1,494**	**14,227**

13 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The carrying amount of buildings of the Group is analyzed as follows:

In HK$ million	Group 2012	2013
Held in Hong Kong		
On long-term lease (over 50 years)	37	**36**
On medium-term lease (10-50 years)	489	**468**
	526	**504**

14 INTERESTS IN LEASEHOLD LAND

In HK$ million	Group 2012	2013
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	220	**233**
Charge for the year	13	**12**
End of year	233	**245**
Net book value		
End of year	303	**291**
Beginning of year	316	**303**

The carrying amount of interests in leasehold land of the Group is analyzed as follows:

In HK$ million	Group 2012	2013
Held in Hong Kong		
On long-term lease (over 50 years)	29	**28**
On medium-term lease (10-50 years)	274	**263**
	303	**291**

15 GOODWILL

In HK$ million	Group 2012	2013
Cost		
Beginning of year	35,892	**36,025**
Additions upon business combinations	129	**19**
Exchange differences	4	**(1)**
End of year	36,025	**36,043**

15 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group and the Company's CGUs identified according to operating segment as follows:

In HK$ million	Group 2012	**2013**
Telecommunications services		
- Local telephony and data services	30,830	**30,830**
- Global	1,126	**1,146**
- Others	510	**508**
Mobile	3,356	**3,356**
Other businesses	203	**203**
Total	36,025	**36,043**

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 2013 are as follows:

	2012			**2013**		
	Gross Margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
Telecommunications services						
- Local telephony and data services	70%	1%	8%	**70%**	**1%**	**10%**
- Global	15%	3%	10%	**19%**	**3%**	**10%**
Mobile	61%	2%	14%	**62%**	**2%**	**16%**

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, 2013.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

16 INTANGIBLE ASSETS

In HK$ million	Group 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
Addition upon business combination (note 36)	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

In HK$ million	Group **2013**						
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**530**	**1,501**	**2,617**	**5,087**	**342**	**-**	**10,077**
Additions	**-**	**99**	**1,335**	**-**	**339**	**149**	**1,922**
Write-off	**-**	**-**	**(1,261)**	**-**	**-**	**(136)**	**(1,397)**
Exchange differences	**5**	**-**	**(1)**	**5**	**-**	**-**	**9**
End of year	**535**	**1,600**	**2,690**	**5,092**	**681**	**13**	**10,611**
Accumulated amortization							
Beginning of year	**96**	**604**	**1,371**	**3,410**	**23**	**-**	**5,504**
Charge for the year (note(a))	**28**	**234**	**1,429**	**728**	**44**	**149**	**2,612**
Write-off	**-**	**-**	**(1,261)**	**-**	**-**	**(136)**	**(1,397)**
End of year	**124**	**838**	**1,539**	**4,138**	**67**	**13**	**6,719**
Net book value							
End of year	**411**	**762**	**1,151**	**954**	**614**	**-**	**3,892**
Beginning of year	**434**	**897**	**1,246**	**1,677**	**319**	**-**	**4,573**

a. The amortization charge for the year is included in “General and administrative expenses” in the consolidated income statement.

17 INTERESTS IN SUBSIDIARIES

In HK$ million	The Company 2012	2013
Unlisted shares, at cost	17,394	**17,394**

a. As at December 31, 2013, particulars of the principal subsidiaries of the Company are as follows:

Company	Country/Place of incorporation/ establishment and/operations	Principal activities	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Indirectly
Gateway Global Communications Limited	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	-	100%
Hong Kong Telecommunications (HKT) Limited	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	-	100%
HKT Services Limited	Hong Kong	Provision of management services to group companies	HK$1	-	100%
PCCW Global B.V.	Netherlands/ France	Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited	EUR18,000	-	100%
PCCW Global, Inc.	U.S. (Delaware)	Supply of broadband internet access solutions and web services	US$18.01	-	100%
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK$3	-	100%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	-	100%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of telecommunications solutions related services	S$60,956,485.64	-	100%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	-	75%[5]
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services to its customers, which is procured from Hong Kong Telecommunications (HKT) Limited, and the sale of mobile phones and accessories	HK$100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	-	100%

17 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2013, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company	Country/Place of incorporation/ establishment and/operations	Principal activities	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Indirectly
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	Customer service and consultancy	HK$93,240,000	-	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	-	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$12	-	100%
PCCW Teleservices (US), Inc.	Nebraska, U.S.	Telemarketing and direct marketing services	US$1,169	-	100%
Unihub China Information Technology Company Limited [1, 4]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	-	38.2%[6]

Certain subsidiaries which do not materially affect the results or financial position of the Group 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 Group as the Group owns more than one half of the voting rights in the board of directors of this company.
5. The equity interest held by non-controlling interest was 25% as at December 31, 2013.
6. The equity interest held by non-controlling interests was 61.8% as at December 31, 2013.

b. Balances with subsidiaries

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the balances with subsidiaries are as follows:

In HK$ million	The Company 2012	**2013**
Amounts due from subsidiaries	3,344	**3,317**
Amounts due to subsidiaries	1,429	**1,429**

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 (2012: HK$7,437 million) which bears interest at HIBOR plus 0.3% per annum and repayable within one year.

c. Non-controlling interest of the Group's subsidiaries

The total non-controlling interests as at December 31, 2013 were HK$182 million (2012: HK$183 million), of which HK$160 million (2012: HK$161 million) and HK$22 million (2012: HK$22 million) were attributable to Unihub China Information Technology Company Limited and PCCW (Macau), Limitada, respectively. The non-controlling interests in respect of the Group are not material.

18 INTEREST IN AN ASSOCIATE

In HK$ million	Group 2012	**2013**
Share of net assets of an associate	-	**-**
Loans due from an associate, net	200	**207**
	200	**207**
Investments at cost, unlisted	41	**41**

As at December 31, 2012, loans due from an associate comprised two unsecured loans of approximately HK$31 million and HK$43 million, which were interest bearing at 5% per annum, and repayable in 1 to 2 years and 1 year, respectively, and certain secured loans of HK$12 million and HK$124 million, which were interest bearing at 6.5% and 6%, respectively, and repayable in 1 year.

As at December 31, 2013, loans due from an associate comprised two unsecured loans totaling HK$74 million which bear interest at 5% per annum and repayable in 1 year, and certain secured loans totaling HK$167 million which bear interest at 6% per annum and repayable in 1 year.

a. As at December 31, 2013, particulars of the associate of the Group are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Nominal value of registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
東莞捷通達電訊有限公司(Dongguan Jietongda Telecommunications Company Limited#) ("DJTCL")	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	-	35%	Equity

Unofficial company name

DJTCL is a strategic intent for the Group's growth in telecommunications business in the PRC market, providing telecommunications subscription services and sales of mobile phones and accessories.

DJTCL is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of the associate

As at December 31, 2013, the Group had the following share of its associate's commitments:

In HK$ million	Group 2012	**2013**
Operating lease commitments		
- within 1 year	12	**11**
- after 1 year but within 5 years	17	**10**

The Group's contingent liabilities relating to its associate is disclosed in note 34. As at December 31, 2013, the Group has no share of contingent liabilities of its associate.

18 INTEREST IN AN ASSOCIATE *(CONTINUED)*

c. Summarized unaudited financial information of the Group's associate

Set out below is the summarized unaudited financial information of the associate which is accounted for using the equity method:

In HK$ million	As at December 31, 2012	**As at December 31, 2013**
Non-current assets	51	**45**
Current assets	162	**153**
Current liabilities	(279)	**(365)**
Non-current liabilities	(30)	**-**

In HK$ million	For the year ended December 31, 2012	**For the year ended December 31, 2013**
Turnover	405	**620**
Loss after income tax and total comprehensive loss	(99)	**(68)**

The information above reflects the amounts presented in the financial statement of the associate (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

d. Reconciliation of summarized financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in an associate.

In HK$ million	For the year ended December 31, 2012	**For the year ended December 31, 2013**
Net assets/(liabilities)		
Beginning of year	3	**(96)**
Loss for the year	(99)	**(68)**
Exchange differences	-	**(3)**
End of year	(96)	**(167)**
Interest in an associate	35%	**35%**
Interest in an associate	(34)	**(58)**
Goodwill	24	**24**
Loans due from an associate	210	**241**
Carrying value	200	**207**

During the year ended December 31, 2013, the Group did not have any unrecognized share of losses of an associate (2012: nil). As at December 31, 2013, there was no accumulated share of loss of the associate unrecognized by the Group (2012: nil).

19 INTERESTS IN JOINT VENTURES

In HK$ million	Group 2012	**2013**
Share of net assets of joint ventures	162	**42**
Loan due from a joint venture	372	**524**
	534	**566**

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2012: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2013, particulars of the joint ventures of the Group are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement Method
China Netcom Broadband Corporation Limited ("CNBC")	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	-	50%	Equity
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	-	50%	Equity

CNBC provides broadband access and value-added services in the PRC. It is a strategic alliance for the Group's growth in broadband business in the PRC. GBL is a strategic partnership for the Group, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The joint ventures are private companies and there is no quoted market price available for their shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2013, the Group has the following commitments relating to its joint ventures.

In HK$ million	Group 2012	**2013**
Commitment to provide funding	105	**86**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2013, the Group's share of its joint venture's contingent liabilities relating to guarantees were HK$249 million (2012: HK$75 million).

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is the summarized unaudited financial information of joint ventures which are accounted for using the equity method:

In HK$ million	CNBC		GBL	
	2012	**2013**	2012	**2013**
Non-current assets	780	**94**	696	**1,119**
Current assets				
Cash and cash equivalents	111	**446**	119	**20**
Other current assets (excluding cash and cash equivalents)	111	**113**	13	**19**
Total current assets	222	**559**	132	**39**
Current liabilities				
Financial liabilities (excluding trade payables, accruals and other payables)	-	**-**	(189)	**(240)**
Other current liabilities (including trade payables, accrual and other payables)	(458)	**(298)**	(14)	**(30)**
Total current liabilities	(458)	**(298)**	(203)	**(270)**
Non-current liabilities				
Financial liabilities (excluding trade payables)	-	**-**	(635)	**(897)**
Other non-current liabilities (including trade payables)	(21)	**-**	-	**-**
Total non-current liabilities	(21)	**-**	(635)	**(897)**
Net assets/(liabilities)	523	**355**	(10)	**(9)**
Non-controlling interests	(190)	**(306)**	-	**-**
Equity attributable to equity holders	333	**49**	(10)	**(9)**

In HK$ million	CNBC		GBL	
	2012	**2013**	2012	**2013**
Turnover	653	**651**	83	**194**
Depreciation and amortization	(131)	**(101)**	(43)	**(79)**
Interest income	4	**5**	-	**-**
Interest expense	(3)	**(2)**	(17)	**(31)**
(Loss)/profit before income tax	(66)	**239**	(9)	**1**
Income tax	(12)	**(71)**	-	**-**
(Loss)/profit after income tax and total comprehensive (loss)/income	(78)	**168**	(9)	**1**

The information above reflects the amounts presented in the financial statements of the joint ventures (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in joint ventures.

In HK$ million	CNBC		GBL	
	2012	**2013**	2012	**2013**
Net assets/(liabilities)				
Beginning of year	409	**333**	(1)	**(10)**
(Loss)/profit for the year	(78)	**168**	(9)	**1**
Transaction with shareholders	-	**(462)**	-	**-**
Exchange differences	2	**10**	-	**-**
End of year	333	**49**	(10)	**(9)**
Interests in joint ventures	50%	**50%**	50%	**50%**
Interests in joint ventures	167	**25**	(5)	**(5)**
Recovery of impairment of a joint venture	-	**22**	-	**-**
Loan due from a joint venture	-	**-**	372	**524**
Carrying value	167	**47**	367	**519**

During the year ended December 31, 2013, the Group did not have any unrecognized share of losses of joint ventures (2012: nil). As at December 31, 2013, there was no accumulated share of losses of the joint ventures unrecognized by the Group (2012: nil).

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	Group	
	2012	**2013**
Beginning of year	72	**85**
Net gains transferred to equity (note 27)	13	**86**
End of year	85	**171**
Market value of listed equity securities - overseas	85	**171**

As at December 31, 2013, the Group's equity securities were reviewed for impairment by management. Consequently, there was no provision for impairment (2012: nil) recognized in the consolidated income statement for the year ended December 31, 2013. The Group does not hold any collateral over these securities.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	Group	
	2012	**2013**
Market value of listed securities	16	**75**
Less: Securities held for employee share award to be vested within one year classified as current assets	8	**24**
Non-current portion	8	**51**

Financial assets at fair value through profit or loss represent shares of PCCW and Share Stapled Units acquired under the PCCW Purchase Scheme and the HKT Share Stapled Units Purchase Scheme, respectively. Please refer to notes 26(b)(iv) and 26(b)(iii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT and the HKT Trust, respectively.

22 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	Group 2012	**2013**
Work-in-progress	445	**518**
Finished goods	394	**431**
Consumable inventories	132	**69**
	971	**1,018**

b. Trade receivables, net

In HK$ million	Group 2012	**2013**
Trade receivables	3,550	**3,123**
Less: Impairment loss for doubtful debts (note (i))	(125)	**(123)**
Trade receivables, net	3,425	**3,000**

i. Impairment loss for doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	Group 2012	**2013**
Beginning of year	110	**125**
Impairment loss recognized	138	**129**
Uncollectible amounts written off	(123)	**(131)**
End of year	125	**123**

As at December 31, 2013, the Group's trade receivables of HK$123 million (2012: HK$125 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$85 million (2012: HK$88 million) was recognized. The Group does not hold any collateral over these balances.

ii. Trade receivables that are not impaired

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	Group 2012	**2013**
Neither past due nor impaired	1,297	**1,112**
0 - 30 days past due	714	**788**
31 - 60 days past due	270	**234**
61 - 90 days past due	227	**122**
Over 90 days past due	917	**744**
Past due but not impaired	2,128	**1,888**
	3,425	**3,000**

22 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net *(continued)*

ii. Trade receivables that are not impaired *(continued)*

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 Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in trade receivables, net of the Group was the amount due from related parties of HK$47 million (2012: HK$41 million).

c. Short-term borrowings

In HK$ million	Group	
	2012	**2013**
US$500 million 6% guaranteed notes due 2013 (note (i))	3,873	-
Bank borrowings	4,589	-
	8,462	-
Secured	-	-
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 the Company, issued US$500 million 6% guaranteed notes due 2013 which were listed on the Luxembourg Stock Exchange. The Notes due 2013 were irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), Hong Kong Telecommunications (HKT) Limited ("HKTL") and the Company and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTL and the Company.

The notes were fully redeemed in July 2013 and were delisted from the Luxembourg Stock Exchange.

23 LONG-TERM BORROWINGS

In HK$ million	Group 2012	**2013**
Repayable within a period		
- over one year, but not exceeding two years	2,292	**3,868**
- over two years, but not exceeding five years	13,352	**16,774**
- over five years	-	**3,380**
	15,644	**24,022**
Representing:		
US$500 million 5.25% guaranteed notes due 2015 (note (a))	3,861	**3,868**
US$500 million 4.25% guaranteed notes due 2016 (note (b))	4,016	**3,961**
US$500 million 3.75% guaranteed notes due 2023 (note (c))	-	**3,380**
Bank borrowings	7,767	**12,813**
	15,644	**24,022**
Secured	-	**-**
Unsecured	15,644	**24,022**

a. 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 the Company, 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, HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTL and the Company.

b. 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 the Company, 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 HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

c. US$500 million 3.75% guaranteed notes due 2023 (the "Notes due 2023")
In March 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2023 are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

Please refer to note 35 for details of the Group's bank loan facilities.

24 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	Group 2012	**2013**
Non-current assets		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	65	**67**
Fixed-to-floating cross currency swap contracts - cash flow hedges (note (b))	22	**-**
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	166	**-**
	253	**67**
Current assets		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	4	**-**
Non-current liabilities		
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	-	**405**

As at December 31, 2013, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,000 million (approximately HK$7,755 million) (2012: US$1,500 million (approximately HK$11,627 million)), at various rates, to manage the Group's 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. The fixed-to-fixed cross currency swap contract outstanding as at December 31, 2013 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2012: US$1,000 million (approximately HK$7,751 million)) was designated as cash flow hedge of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of this swap matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 as at December 31, 2013 (2012: 7.7790 to 7.8014) for the notional amounts (see note 32(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contract will be continuously released to the consolidated income statement until the repayment of the borrowings.

b. The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2013 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2012: US$500 million (approximately HK$3,876 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.757 as at December 31, 2013 (2012: 7.7708 to 7.7711) for the notional amounts (see note 32(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (2012: HIBOR plus 2.24%) (see note 32(c)(ii)).

   These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's 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 statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to a gain of approximately HK$5 million (2012: a loss of HK$4 million) for the year ended December 31, 2013 (see note 9).

25 SHARE CAPITAL

	2012		**2013**	
	Number of shares	Nominal value HK$ million	**Number of shares**	**Nominal Value HK$ million**
Authorized:				
Ordinary shares of US$1 each				
Beginning and end of year	650,000,000	5,070	**650,000,000**	**5,070**
Issued and fully paid:				
Ordinary shares of US$1 each				
Beginning of year	636,000,002	4,961	**636,000,003**	**4,961**
Issue of one ordinary share (note (a))	1	-	**-**	**-**
End of year	636,000,003	4,961	**636,000,003**	**4,961**

a. During the year ended December 31, 2012, the Company issued one ordinary share of US$1 to the sole shareholder of the Company at a premium of US$21,505,573 (approximately HK$168 million).

26 EMPLOYEE BENEFITS

a. Employee retirement benefits - Defined contribution retirement schemes

The Group operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. 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 had 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).

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. 1994 and 2004 PCCW Share option schemes *(continued)*

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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

The 2004 PCCW Scheme will expire on May 19, 2014 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the termination of the 2004 PCCW Scheme and the adoption of a new scheme. Following the termination of the 2004 PCCW Scheme, no further option will be granted under such scheme, and the provisions of the 2004 PCCW Scheme will remain in full force and effect in all other respects.

(1) Movements in the number of share options outstanding and their related weighted average exercise prices

	Group			
	2012		**2013**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of Options**
Beginning of year	4.82	22,614,335	**4.35**	**13,341,335**
Net (decrease)/increase due to transfer of employees (to)/from fellow subsidiaries (note (3))	4.35	(3,411,000)	**-**	**-**
Cancelled/lapsed (note (4))	6.15	(5,862,000)	**4.35**	**(13,341,335)**
End of year (note (2))	4.35	13,341,335	**N/A**	**-**
Exercisable at end of year		13,341,335		**-**

(2) Terms of unexpired and unexercised share options as at the balance sheet date

				Group Number of options	
Date of grant	Vesting period	Exercise period	Exercise price HK$	2012	**2013**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	13,341,335	**-**
				13,341,335	**-**

26 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 as 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:

	Group			
	2012		**2013**	
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	0.56	13,341,335	**N/A**	-
		13,341,335		-

(3) Details of share options transferred to/(from) the Group with employees transferred during the year:

				Group	
				Number of options	
Date of grant	Vesting period	Exercise period	Exercise price HK$	2012	**2013**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	(3,411,000)	-
				(3,411,000)	-

(4) Details of share options cancelled or lapsed during the year:

		Group	
		Number of ptions	
Exercise period	Exercise price HK$	2012	**2013**
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	215,000	**13,341,335**
		5,862,000	**13,341,335**

(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 of the HKT Trust and HKT

On November 7, 2011 (the "Adoption Date"), the HKT Trust and HKT conditionally adopted a Share Stapled Units option scheme ("HKT 2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units, to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of HKT 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 HKT and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the HKT Trust and HKT and to provide the HKT Trust and HKT with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. 2011-2021 Share Stapled Units Option Scheme of the HKT Trust and HKT *(continued)*

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at December 31, 2012 and 2013 and no options were granted to or exercised by any directors of the Company, employees of the Group, or other participants, nor cancelled or lapsed during the years ended December 31, 2012 and 2013.

iii. Share Stapled Units Award Schemes of HKT

On October 11, 2011, HKT 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 "HKT Share Stapled Units Award Schemes").

The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT which became effective upon listing of the Share Stapled Units 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 HKT and/or any of its subsidiaries; and

(2) any director (including executive, non-executive and independent non-executive director) of HKT 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 HKT or its subsidiaries and/or any other connected persons of HKT.

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 HKT Share Stapled Units Award Schemes are administered by the board of directors of HKT (the "HKT 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 shall vest over a period of time provided that the eligible participant remains an employee of the 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 HKT Board shall be at liberty to waive such condition.

Awards may be made by the HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended, the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2012 and 2013.

A summary of movements in the Share Stapled Units held by the Group under the HKT Share Stapled Units Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Group	
	Number of Share Stapled Units	
	2012	**2013**
Beginning of year	-	**1,158,000**
Purchase from the market by the Trustee at the weighted average market price of HK$7.71 (2012: HK$6.07) per Share Stapled Unit	1,158,000	**6,737,000**
Share Stapled Units vested	-	**(534,203)**
End of year	1,158,000	**7,360,797**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

Details of Share Stapled Units awarded to eligible employees of the Group pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units held by the Group are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	Group			
	2012		**2013**	
	Weighted average fair value at date of award HK$	Number of Share Stapled Units	**Weighted average fair value at date of award HK$**	**Number of Share Stapled Units**
Beginning of year	N/A	-	**5.98**	**1,140,265**
Awarded (note (3))	5.98	1,145,831	**7.59**	**2,387,498**
Forfeited (note (4))	5.98	(5,566)	**6.84**	**(37,578)**
Vested (note (5))	N/A	-	**5.98**	**(534,203)**
End of year (note (2))	5.98	1,140,265	**7.27**	**2,955,982**

(2) Terms of unvested Share Stapled Units held by the Group at balance sheet date

			Group	
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value at date of award HK$	2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	534,748	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	605,517	**588,460**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**1,183,919**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**1,183,603**
			1,140,265	**2,955,982**

The unvested Share Stapled Units held by the Group at December 31, 2013 had a weighted average remaining vesting period of 0.63 years (2012: 0.81 years).

(3) Details of Share Stapled Units awarded to eligible employees of the Group during the year

			Group	
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value at date of award HK$	2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	537,532	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	608,299	**-**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**1,193,910**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**1,193,588**
			1,145,831	**2,387,498**

(4) Details of Share Stapled Units forfeited by eligible employees of the Group during the year

			Group	
			Number of Share Stapled Units	
Date of award	Vesting period	Fair value at date of award HK$	2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	2,784	**545**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	2,782	**17,057**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**9,991**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**9,985**
			5,566	**37,578**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of HKT *(continued)*

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of Share Stapled Units 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	-	**534,203**
			-	**534,203**

The fair value of the Share Stapled Units awarded to eligible employees of the Group 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$15 million (2012: HK$5 million) is recognized for the HKT Share Stapled Units Award Schemes in the consolidated income statement and a corresponding HK$15 million (2012: HK$5 million) is recognized as an obligation in liabilities.

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).

The PCCW Purchase Scheme and the PCCW Subscription Scheme expired on November 15, 2012 however the shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the PCCW Purchase Scheme and the PCCW Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the granting of the Share Stapled Units in the future in addition or as an 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, 2012 and 2013.

A summary of movements in PCCW shares held by the Group under the PCCW Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Number of PCCW shares 2012	**2013**
Beginning of year	-	**2,236,000**
Purchase from the market by the Trustee at the weighted average market price of HK$3.85 (2012: HK$2.87) per PCCW share	2,236,000	**4,277,000**
PCCW shares vested	-	**(1,025,870)**
End of year	2,236,000	**5,487,130**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

Details of PCCW shares awarded to eligible employees of the Group pursuant to the PCCW Purchase Scheme during the year and the unvested PCCW shares held by the Group are as follows:

(1) Movements in the number of unvested PCCW shares held by the Group and their related weighted average fair value on the date of award

	Group			
	2012		**2013**	
	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	N/A	-	**2.80**	**2,204,935**
Awarded (note (3))	2.80	2,215,122	**3.62**	**3,939,584**
Forfeited (note (4))	2.80	(10,187)	**3.11**	**(56,579)**
Vested (note (5))	N/A	-	**2.80**	**(1,025,870)**
End of year (note (2))		2,204,935	**3.43**	**5,062,070**

(2) Terms of unvested PCCW shares held by the Group at balance sheet date

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	1,026,370	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	1,178,565	**1,143,842**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**1,959,172**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**1,959,056**
			2,204,935	**5,062,070**

The unvested PCCW shares held by the Group at December 31, 2013 had a weighted average remaining vesting period of 0.62 years (2012: 0.81 years).

(3) Details of PCCW shares awarded to eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	1,031,464	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	1,183,658	**-**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**1,969,851**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**1,969,733**
			2,215,122	**3,939,584**

26 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(4) Details of PCCW shares forfeited by eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	5,094	**500**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	5,093	**34,723**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**10,679**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**10,677**
			10,187	**56,579**

(5) Details of PCCW shares vested by eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK$	Group Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	-	**1,025,870**
			-	**1,025,870**

The fair value of the PCCW shares awarded to eligible employees of the Group 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$11 million (2012: HK$4 million) is recognized in the consolidated income statement and HK$11 million (2012: HK$4 million) is recognized as an obligation in liabilities.

27 RESERVES

In HK$ million	Group 2012								
	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	Retained profits	Total
At January 1, 2012	13,697	28	367	(695)	212	65	(31)	4,348	17,991
Comprehensive income									
Profit for the year	-	-	-	-	-	-	-	1,578	1,578
Other comprehensive income Items that may be reclassified subsequently to consolidated income statement: 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
Total comprehensive income for the year	**-**	**-**	**98**	**-**	**(35)**	**13**	**-**	**1,578**	**1,654**
Transactions with equity holders									
Issue of an ordinary share (note 25(a))	168	-	-	-	-	-	-	-	168
Interim dividend paid in respect of the current year (note 12)	-	-	-	-	-	-	-	(1,287)	(1,287)
Total contributions by and distribution to equity holders	168	-	-	-	-	-	-	(1,287)	(1,119)
Increase in interests in subsidiaries (note 37)	-	-	-	-	-	-	-	(2)	(2)
Total changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	(2)	(2)
Total transactions with equity holders	168	-	-	-	-	-	-	(1,289)	(1,121)
At December 31, 2012	13,865	28	465	(695)	177	78	(31)	4,637	18,524

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES *(CONTINUED)*

In HK$ million — Group — **2013**

	Share premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	Retained profits	Total
At January 1, 2013	13,865	28	465	(695)	177	78	(31)	4,637	18,524
Comprehensive income									
Profit for the year	-	-	-	-	-	-	-	2,444	2,444
Other comprehensive income									
Items that may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	(42)	-	-	-	-	-	(42)
Available-for-sale financial assets									
- changes in fair value	-	-	-	-	-	86	-	-	86
Cash flow hedges									
- effective portion of changes in fair value	-	-	-	-	(10)	-	-	-	(10)
- transfer from equity to consolidated income statement	-	-	-	-	(53)	-	-	-	(53)
Total comprehensive income for the year	-	-	(42)	-	(63)	86	-	2,444	2,425
Transactions with equity holders									
Contributions by and distributions to equity holders:									
Interim dividend paid in respect of the current year (note 12)	-	-	-	-	-	-	-	(1,348)	(1,348)
Final dividend paid in respect of previous year (note 12)	-	-	-	-	-	-	-	(1,385)	(1,385)
Total transactions with equity holders	-	-	-	-	-	-	-	(2,733)	(2,733)
At December 31, 2013	13,865	28	423	(695)	114	164	(31)	4,348	18,216

In HK$ million — The Company — 2012

	Share premium	Retained profits	Total
At January 1, 2012	13,697	572	14,269
Profit for the year	-	1,289	1,289
Interim dividend paid in respect of current year (note 12)	-	(1,287)	(1,287)
Issue of an ordinary share (note 25(a))	168	-	168
At December 31, 2012	13,865	574	14,439

In HK$ million — **The Company** — **2013**

	Share premium	**Retained profits**	**Total**
At January 1, 2013	**13,865**	**574**	**14,439**
Profit for the year	**-**	**2,718**	**2,718**
Interim dividend paid in respect of current year (note 12)	**-**	**(1,348)**	**(1,348)**
Final dividend paid in respect of previous year (note 12)	**-**	**(1,385)**	**(1,385)**
At December 31, 2013	**13,865**	**559**	**14,424**

28 DEFERRED INCOME TAX

a. Movements in deferred income tax liabilities/(assets) during the year are as follows:

In HK$ million	Group 2012			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	1,991	-	(3)	1,988
(Credited)/charged to the consolidated income statement (note 11(a))	(164)	2	-	(162)
Additions upon business combinations	-	-	2	2
End of year	1,827	2	(1)	1,828

In HK$ million	**Group 2013**			
	Accelerated tax depreciation and amortization	**Tax losses**	**Others**	**Total**
Beginning of year	**1,827**	**2**	**(1)**	**1,828**
(Credited)/charged to the consolidated income statement (note 11(a))	**(34)**	**(364)**	**3**	**(395)**
Additions upon business combinations	**-**	**-**	**19**	**19**
End of year	**1,793**	**(362)**	**21**	**1,452**

In HK$ million	Group 2012	**2013**
Deferred income tax assets:		
- to be recovered after more than 12 months	-	**(280)**
- to be recovered within 12 months	(3)	**(79)**
Deferred income tax assets recognized in the consolidated balance sheet	(3)	**(359)**
Deferred income tax liabilities:		
- to be recovered after more than 12 months	1,517	**1,601**
- to be recovered within 12 months	314	**210**
Deferred income tax liabilities recognized in the consolidated balance sheet	1,831	**1,811**
Deferred income tax liabilities (net)	1,828	**1,452**

b. The Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$6,109 million as at December 31, 2013 (2012: HK$8,659 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$21 million as at December 31, 2013 (2012: HK$13 million) will expire within 1 to 5 years. HK$8 million tax losses as at December 31, 2013 will expire after 5 years (2012: HK$13 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

29 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2013, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million	Group					
	2012			**2013**		
	Present value of the minimum annual fees	Interest expense relating to future period	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future period**	**Total minimum annual fees**
Repayable within a period						
- not exceeding one year	200	9	209	**209**	**10**	**219**
- over one year, but not exceeding two years	159	23	182	**166**	**23**	**189**
- over two years, but not exceeding five years	345	97	442	**246**	**96**	**342**
- over five years	232	118	350	**204**	**96**	**300**
	936	247	1,183	**825**	**225**	**1,050**
Less: Amounts repayable within one year included under current liabilities	(200)	(9)	(209)	**(209)**	**(10)**	**(219)**
	736	238	974	**616**	**215**	**831**

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	Group 2012	**2013**
Profit before income tax	2,077	**2,494**
Adjustments for:		
Interest income	(25)	**(52)**
Interest expense	777	**782**
Finance charges	94	**145**
Cash flow hedges: transferred from equity	1	**1**
Losses/(gains) on fair value hedges	4	**(5)**
Net gain on cash flow hedging instruments transferred from equity	(19)	**(21)**
Net gain on fair value hedging instruments	-	**(42)**
Fair value (gain)/loss on financial assets at fair value through profit or loss	(3)	**1**
Depreciation of property, plant and equipment	2,229	**2,076**
Gain on disposals of property, plant and equipment, net	-	**(13)**
Provision/(write-back of provision) for inventory obsolescence	5	**(8)**
Impairment loss for doubtful debts	138	**129**
Amortization of intangible assets	2,446	**2,612**
Amortization of land lease premium	13	**12**
Share of results of joint ventures	44	**(85)**
Share of results of an associate	35	**24**
Share-based payment	9	**26**
Increase in financial assets at fair value through profit or loss for equity compensation schemes	(13)	**(68)**
Recovery of impairment loss on an interest in a joint venture (note 7)	-	**(22)**
Decrease/(increase) in operating assets		
- inventories	100	**(39)**
- trade receivables	(143)	**296**
- prepayments, deposits and other current assets	(377)	**(547)**
- amount due from related companies	-	**5**
- other non-current assets	(33)	**(25)**
(Decrease)/increase in operating liabilities		
- trade payables, accruals and other payables	(324)	**(258)**
- other long-term liabilities	(3)	**-**
- advances from customers	193	**54**
- amounts due to related companies	99	**1**
- amounts due to fellow subsidiaries	(746)	**16**
- deferred income (non-current)	95	**(38)**
Cash generated from operations	6,673	**7,451**
Interest received	7	**14**
Income tax paid, net of tax refund		
- Hong Kong profits tax paid	(172)	**(279)**
- Overseas profits tax paid	(31)	**(38)**
Net cash generated from operating activities	6,477	**7,148**

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Additions upon business combinations

In HK$ million	Group 2012	**2013**
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	-
Obligations 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 obligations assumed upon business combinations	(121)	-

c. Major non-cash transactions

During the year ended December 31, 2012, the Group acquired certain software and content from fellow subsidiaries amounting to approximately HK$470 million, which was settled through offsetting with corresponding amounts due from fellow subsidiaries for cash received on behalf of the Group.

During the year ended December 31, 2012, the Company issued one ordinary share of US$1 to the shareholders of the Company at a premium of US$21,505,573 (approximately HK$168 million) which was settled through offsetting with corresponding amount due to the immediate holding company.

During the year ended December 31, 2013, a return on investment of a joint venture of approximately RMB181 million (equivalent to approximately HK$231 million) was received by a fellow subsidiary on behalf of the Group.

d. Analysis of cash and cash equivalents

In HK$ million	Group 2012	**2013**
Cash and bank balances	2,398	**2,131**
Cash and cash equivalents as at December 31,	2,398	**2,131**

31 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Group, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

The Adjusted Capital as at December 31, 2013 was as follows:

In HK$ million	Group	
	2012	**2013**
Equity attributable to equity holders of the Company	23,485	**23,177**
Excluding:		
Currency translation reserve	(465)	**(423)**
Merger reserve	695	**695**
Hedging reserve	(177)	**(114)**
Available-for-sale financial assets reserve	(78)	**(164)**
Other reserve	31	**31**
Adjusted Capital	23,491	**23,202**

The Group is not subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

32 FINANCIAL INSTRUMENTS

The tables below analyzes financial instruments by category:

In HK$ million	Group 2012				
	Loans and receivables	Asset at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Available-for-sale financial assets	-	-	-	85	85
Financial assets at fair value through profit or loss	-	8	-	-	8
Derivative financial instruments	-	-	253	-	253
Other non-current assets	28	-	-	-	28
	28	8	253	85	374
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	2,374	-	-	-	2,374
Trade receivables, net	3,425	-	-	-	3,425
Derivate financial instruments	-	-	4	-	4
Financial assets at fair value through profit or loss	-	8	-	-	8
Amounts due from related companies	25	-	-	-	25
Cash and cash equivalents	2,398	-	-	-	2,398
	8,222	8	4	-	8,234
Total	8,250	16	257	85	8,608

In HK$ million	Group 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 and the immediate holding company	8,059	8,059
	21,361	21,361
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	37,792	37,792

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyzes financial instruments by category *(continued)*:

In HK$ million	Group 2013				
	Loans and receivables	**Asset at fair value through profit or loss**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
Non-current assets					
Available-for-sale financial assets	-	-	-	171	171
Financial assets at fair value through profit or loss	-	51	-	-	51
Derivative financial instruments	-	-	67	-	67
Other non-current assets	28	-	-	-	28
	28	51	67	171	317
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	2,886	-	-	-	2,886
Trade receivables, net	3,000	-	-	-	3,000
Financial assets at fair value through profit or loss	-	24	-	-	24
Amounts due from related companies	49	-	-	-	49
Cash and cash equivalents	2,131	-	-	-	2,131
	8,066	24	-	-	8,090
Total	8,094	75	67	171	8,407

In HK$ million	Group 2013	
	Other financial liabilities at amortized cost	**Total**
Current liabilities		
Trade payables	1,803	1,803
Accruals and other payables	2,413	2,413
Carrier licence fee liabilities	209	209
Amounts due to related companies	136	136
Amounts due to fellow subsidiaries and the immediate holding company	7,837	7,837
	12,398	12,398
Non-current liabilities		
Long-term borrowings	24,022	24,022
Derivative financial instruments	405	405
Carrier licence fee liabilities	616	616
Other long-term liabilities	55	55
	25,098	25,098
Total	37,496	37,496

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyzes financial instruments by category *(continued)*:

In HK$ million	The Company **Loans and receivables** 2012	 **2013**
Current assets		
Amount due from the immediate holding company	91	**91**
Amounts due from subsidiaries	3,344	**3,317**
Total	3,435	**3,408**

In HK$ million	The Company **Other financial liabilities at amortized cost** 2012	 **2013**
Current liabilities		
Amounts due to subsidiaries	1,429	**1,429**
Total	1,429	**1,429**

Exposures to credit, liquidity, and market risks (including foreign currency and interest rate risk) arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2012 and December 31, 2013, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22(b).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2012 and 2013, amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Group as disclosed in note 34, the Group does not provide any other guarantees which would expose the Group to credit risk.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of business. Please refer to note 34 for details.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK$ million			Group			
			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 outflow	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 immediate holding company	(8,059)	-	-	-	(8,059)	(8,059)
	(21,584)	-	-	-	(21,584)	(21,361)
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	(21,998)	(2,925)	(14,051)	(403)	(39,377)	(37,792)

32 FINANCIAL INSTRUMENTS *(CONTINUED)*
b. Liquidity risk *(continued)*

In HK$ million	Group 2013					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash outflow**	**Carrying Amount**
Current liabilities						
Trade payables	**(1,803)**	**-**	**-**	**-**	**(1,803)**	**(1,803)**
Accruals and other payables	**(2,413)**	**-**	**-**	**-**	**(2,413)**	**(2,413)**
Carrier licence fee liabilities	**(219)**	**-**	**-**	**-**	**(219)**	**(209)**
Amounts due to related companies	**(136)**	**-**	**-**	**-**	**(136)**	**(136)**
Amounts due to fellow subsidiaries and the immediate holding company	**(7,837)**	**-**	**-**	**-**	**(7,837)**	**(7,837)**
	(12,408)	**-**	**-**	**-**	**(12,408)**	**(12,398)**
Non-current liabilities						
Long-term borrowings	**(665)**	**(4,462)**	**(17,304)**	**(4,288)**	**(26,719)**	**(24,022)**
Derivative financial instruments	**46**	**32**	**(113)**	**(465)**	**(500)**	**(405)**
Carrier licence fee liabilities	**-**	**(189)**	**(342)**	**(300)**	**(831)**	**(616)**
Other long-term liabilities	**(5)**	**(8)**	**(29)**	**(52)**	**(94)**	**(55)**
	(624)	**(4,627)**	**(17,788)**	**(5,105)**	**(28,144)**	**(25,098)**
Total	**(13,032)**	**(4,627)**	**(17,788)**	**(5,105)**	**(40,552)**	**(37,496)**

In HK$ million	The Company					
	2012			**2013**		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying Amount	**Within 1 year or on demand**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Amounts due to subsidiaries	(1,429)	(1,429)	(1,429)	**(1,429)**	**(1,429)**	**(1,429)**
Total	(1,429)	(1,429)	(1,429)	**(1,429)**	**(1,429)**	**(1,429)**

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposures deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the HKT Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses 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 major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2012 and 2013, a majority of the Group's 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 Group's borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2013 with an aggregate notional contract amount of US$1,000 million (approximately HK$7,755 million) (2012: US$1,500 million (approximately HK$11,627 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 Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	Group			
	2012		**2013**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Trade receivables	768	206	**529**	**315**
Amounts due from related companies	-	11	**-**	**8**
Cash and cash equivalents	282	211	**672**	**277**
Trade payables	(618)	(40)	**(481)**	**(186)**
Amounts due to related companies	(286)	-	**(211)**	**-**
Short-term borrowings	(3,873)	-	**-**	**-**
Long-term borrowings	(7,877)	-	**(11,209)**	**-**
Gross exposure arising from recognized financial (liabilities)/assets	(11,604)	388	**(10,700)**	**414**
Net financial liabilities denominated in respective group entities' functional currencies	(158)	(390)	**(74)**	**(431)**
Notional amounts of cross currency swap contracts designated as fair value or cash flow hedges	11,627	-	**7,755**	**-**
Overall net exposure	(135)	(2)	**(3,019)**	**(17)**

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2013, the profit after tax of the Group for the year ended December 31, 2013 would have increased/decreased by approximately HK$25 million (2012: HK$1 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, 2013 would have increased/decreased by approximately HK$39 million (2012: HK$116 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 the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant as at December 31, 2013, there would be no material impact on the Group's profit after tax for the year ended December 31, 2013.

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 Group's exposure to currency risk for recognized assets and liabilities in existence at the dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the 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, 2012 and 2013.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term, long-term borrowings and amount due to immediate holding company. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	Group			
	2012		**2013**	
	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/without cash flow hedging instruments	5.42	3,861	**4.28**	**7,829**
Variable rate borrowings:				
Bank borrowings	1.61	12,356	**1.65**	**12,813**
Long-term borrowings with fair value hedging instruments	4.46	4,016	**3.95**	**3,380**
Intercompany loan	-	-	**0.52**	**7,437**
Total borrowings		24,106		**31,459**

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 10 basis points as at December 31, 2013, with all other variables held constant, the Group's profit after tax for the year ended December 31, 2013 would have decreased/increased by approximately HK$18 million (2012: HK$12 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 Group's 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 period until the next annual balance sheet date. The analysis is performed on the same basis for the years ended December 31, 2012 and 2013.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 20) and financial assets at fair value through profit and loss (note 21). The investments are listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities hold by the Group, management believes that the Group's equity price risk is minimal.

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2012 and 2013 except as follows, with fair values calculated by quoted prices:

In HK$ million	Group			
	2012		**2013**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	8,462	8,557	**-**	**-**
Long-term borrowings	15,644	16,090	**24,022**	**24,501**

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Fair values of financial liabilities measured at amortized cost *(continued)*

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the borrowing rates. The fair values are within level 2 of the fair value hierarchy (see note 32(e)).

e. Estimation of fair values

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for asset and liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

In HK$ million	Group 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	16	-	-	16
Derivative financial instruments	-	257	-	257
Total assets	101	257	-	358

In HK$ million	**Group 2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
- Listed equity securities	**171**	**-**	**-**	**171**
Financial assets at fair value through profit or loss	**75**	**-**	**-**	**75**
Derivative financial instruments	**-**	**67**	**-**	**67**
Total assets	**246**	**67**	**-**	**313**
Liability				
Derivative financial instruments	**-**	**405**	**-**	**405**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc and financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2012 and 2013.

32 FINANCIAL INSTRUMENTS *(CONTINUED)*

f. The Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Valuation results are reviewed by senior management semi-annually, in line with the Group's reporting dates.

33 COMMITMENTS

a. Capital

In HK$ million	Group 2012	Group 2013
Authorized and contracted for	926	**856**
Authorized but not contracted for	739	**617**
	1,665	**1,473**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	Group 2012	Group 2013
Investments	62	**37**
Acquisition of property, plant and equipment	1,603	**1,436**
	1,665	**1,473**

b. Operating leases

As at December 31, 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	Group 2012	Group 2013
Within 1 year	597	**695**
After 1 year but within 5 years	915	**877**
After 5 years	11	**15**
	1,523	**1,587**

Network capacity and equipment

In HK$ million	Group 2012	Group 2013
Within 1 year	967	**1,054**
After 1 year but within 5 years	600	**692**
After 5 years	305	**300**
	1,872	**2,046**

Majority of the leases typically run for a period of 1 to 11 years as at December 31, 2013 (2012: 1 to 12 years). None of the leases include contingent rentals.

c. Others

As at December 31, 2013, the Group has other outstanding commitments as follows:

In HK$ million	Group 2012	Group 2013
Operating expenditure commitments	235	**227**
	235	**227**

34 CONTINGENT LIABILITIES

In HK$ million	Group		The Company	
	2012	**2013**	2012	**2013**
Performance guarantees (note (a))	280	**182**	695	**506**
Guarantee given to banks in respect of credit facilities granted to an associate	60	**64**	60	**64**
Others	3	**5**	2	**4**
	343	**251**	757	**574**

a. The Company and 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 Company or Group.

35 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2013 were HK$17,676 million (2012: HK$23,182 million) of which the unused facilities amounted to HK$4,750 million (2012: HK$10,758 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangement with financial institutions. If the Group was to breach the covenants the drawn down facilities would become payable on demand. The Group's regularly monitors its compliance with these covenants. As at December 31, 2013, none of the covenants relating to drawn down facilities was breached. Further details of the Group's management of liquidity risk are set out in note 32(b).

Summaries of major borrowings are set out in notes 22(c) and 23.

36 BUSINESS COMBINATIONS

On August 31, 2012 the Group 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 Group's international voice and data services. The acquirees' business covers the provision of international voice services and data services. The Group made a payment for acquisition totaling HK$268 million in cash.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. The initial accounting for the acquisition of Gateway Group was completed as at December 31, 2013. Upon completion of the purchase price allocation, an increase of HK$19 million of goodwill has been recorded compared to the provisional amount previously disclosed as a result of additional information with respect to the valuation of identifiable assets and liabilities acquired.

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	Net assets acquired and goodwill
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 15)	129
Adjustment to goodwill upon completion of the purchase price allocation (note 15)	19
Goodwill upon completion of the purchase price allocation (note 15)	148

36 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 goodwill is attributable to future profit generated from the provision of international voice services and data services. As a result of the acquisition, the Group is expected to increase its connectivity coverage in Europe and Africa. It also expects to reduce costs through economies of scale. The goodwill of HK$148 million arising from the acquisition is attributable to the reduction of cost through economies of scale expected from combining the operations of the Group and the Gateway Group.

The assets and liabilities of the Gateway Group at the acquisition date upon completion of the purchase price allocation were as follows:

In HK$ million	Fair value
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	(21)
Net assets acquired	241
Obligation assumed upon business combinations	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 were 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 Group 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 Group during the year ended December 31, 2012 on a reasonable basis.

37 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In HK$ million	Group 2012	2013
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	5	-
Less: Carrying amount of non-controlling interests acquired	(3)	-
Excess of consideration paid in the transactions with non-controlling interests recognized within equity	2	-

During the year ended December 31, 2012, the Group 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 Group recognized a decrease in equity attributable to the equity holders of the Company of approximately HK$2 million.

38 POST BALANCE SHEET EVENT

On December 20, 2013, HKT entered into a share purchase agreement with CSL New World Mobility Limited ("CSLNW"), Telstra Holdings (Bermuda) No. 2 Limited ("Telstra Bermuda"), Telstra Corporation Limited, Upper Start Holdings Limited ("Upper Start"), and New World Development Company Limited, whereby HKT has conditionally agreed to acquire the entire issued share capital of CSLNW from Telstra Bermuda and Upper Start, for the purchase price (excluding the estimated net cash amount) of US$2,425 million (equivalent to approximately HK$18,867 million), subject to certain price adjustments (being the estimated net cash amount and post completion adjustment to the base purchase price calculated in accordance with the methodology as set out in the share purchase agreement). Completion of the transaction is subject to certain conditions being satisfied, including approval of the Communications Authority. Following the completion of the transaction, HKT intends to reorganize the business of CSLNW by combining and integrating it with the Group's existing mobile telecommunications business under its mobile group of companies in order to unlock and make optimal use of available operational synergies and efficiencies.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING YEAR ENDED DECEMBER 31, 2013

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 year ended December 31, 2013 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Investment Entities	January 1, 2014
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	January 1, 2014
HKAS 36 (Amendment)	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
HK(IFRIC) – Int 21	Levies	January 1, 2014
HKFRS 10 (Amendment)	Consolidated Financial Statements – Investment Entities	January 1, 2014
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities – Investment Entities	January 1, 2014
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014

39 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING YEAR ENDED DECEMBER 31, 2013 *(CONTINUED)*

		Effective for accounting periods beginning on or after
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 9	Financial Instruments	To be determined
Annual improvements to 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual improvements to 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014

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, 2013 and have not been adopted in these financial statements. The new Hong Kong Companies Ordinance will also be effective for the financial year beginning on or after March 3, 2014.

The Group 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 Group's results of operations and financial position.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2013

pwc

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Telecommunications (HKT) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 2 to 58, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements
The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and 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 these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2013, and of the 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 4, 2014

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
Turnover	5	13,456	**13,343**
Cost of sales		(3,972)	**(4,473)**
General and administrative expenses		(6,176)	**(6,184)**
Other gains, net	6	21	**63**
Share of results of a joint venture	16	(4)	**1**
Finance costs, net	8	(860)	**(883)**
Profit before income tax	7	2,465	**1,867**
Income tax	10	(421)	**(298)**
Profit for the year		2,044	**1,569**

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	2012	**2013**
Profit for the year	2,044	**1,569**
Other comprehensive loss		
Items that may be reclassified subsequently to consolidated income statement:		
Cash flow hedges:		
- effective portion of changes in fair value	(54)	**(10)**
- transfer from equity to consolidated income statement	19	**(53)**
Other comprehensive loss for the year	(35)	**(63)**
Total comprehensive income for the year	2,009	**1,506**

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million			2012			
	Share premium	Hedging reserve	Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2012	7,457	212	28	(695)	7,594	14,596
Comprehensive income						
Profit for the year	-	-	-	-	2,044	2,044
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(54)	-	-	-	(54)
- transfer from equity to consolidated income statement	-	19	-	-	-	19
Total other comprehensive loss	-	(35)	-	-	-	(35)
Total comprehensive income for the year	-	(35)	-	-	2,044	2,009
Transaction with equity holders						
Contributions by and distributions to equity holders:						
Interim dividend declared and paid in respect of the current year (note 11)	-	-	-	-	(1,289)	(1,289)
Total transaction with equity holders	-	-	-	-	(1,289)	(1,289)
At December 31, 2012	7,457	177	28	(695)	8,349	15,316

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	2013					
	Share premium	Hedging reserve	Capital contribution reserve	Merger reserve	Retained earnings	Total
At January 1, 2013	7,457	177	28	(695)	8,349	15,316
Comprehensive income						
Profit for the year	-	-	-	-	1,569	1,569
Other comprehensive loss						
Items that may be reclassified subsequently to consolidated income statement:						
Cash flow hedges:						
- effective portion of changes in fair value	-	(10)	-	-	-	(10)
- transfer from equity to consolidated income statement	-	(53)	-	-	-	(53)
Total other comprehensive loss	-	(63)	-	-	-	(63)
Total comprehensive income for the year	-	(63)	-	-	1,569	1,506
Transaction with equity holders						
Contributions by and distributions to equity holders:						
Final dividend paid in respect of the previous year (note 11)	-	-	-	-	(1,385)	(1,385)
Interim dividend declared and paid in respect of the current year (note 11)	-	-	-	-	(1,348)	(1,348)
Total transaction with equity holders	-	-	-	-	(2,733)	(2,733)
At December 31, 2013	7,457	114	28	(695)	7,185	14,089

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	11,750	**11,999**
Interests in leasehold land	13	303	**291**
Goodwill	14	32,592	**32,592**
Intangible assets	15	3,489	**3,017**
Interest in a joint venture	16	368	**519**
Financial assets at fair value through profit or loss	17	6	**6**
Derivative financial instruments	21	253	**67**
Other non-current assets		29	**29**
		48,790	**48,520**
Current assets			
Prepayments, deposits and other current assets		2,323	**2,882**
Inventories	18	771	**750**
Trade receivables, net	19	1,395	**1,338**
Amounts due from a related company	4(c)	13	**23**
Derivative financial instruments	21	4	**-**
Financial assets at fair value through profit or loss	17	6	**12**
Cash and cash equivalents	26(c)	1,350	**1,044**
		5,862	**6,049**
Current liabilities			
Short-term borrowings	20	8,462	**-**
Trade payables		524	**705**
Accruals and other payables		1,147	**1,104**
Carrier licence fee liabilities	25	200	**209**
Amounts due to fellow subsidiaries and an intermediate holding company	4(c)	7,457	**8,245**
Advances from customers		862	**863**
Current income tax liabilities		174	**112**
		18,826	**11,238**
Net current liabilities		(12,964)	**(5,189)**
Total assets less current liabilities		35,826	**43,331**

The notes on pages 9 to 58 from put of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT DECEMBER 31, 2013

In HK$ million	Note	2012	2013
Non-current liabilities			
Long-term borrowings	20	15,644	**24,022**
Derivative financial instruments	21	-	**405**
Deferred income tax liabilities	24	1,558	**1,639**
Deferred income		49	**38**
Carrier licence fee liabilities	25	736	**616**
Other long-term liabilities		35	**34**
		18,022	**26,754**
Net assets		17,804	**16,577**
CAPITAL AND RESERVES			
Share capital	22	2,488	**2,488**
Reserves		15,316	**14,089**
Total equity		17,804	**16,577**

Approved and authorized for issue by the board of directors (the "Board") on April 4, 2014 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

In HK$ million	Note	2012	**2013**
NET CASH GENERATED FROM OPERATING ACTIVITIES	26(a)	4,507	**6,115**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	**15**
Purchases of property, plant and equipment		(1,648)	**(1,742)**
Purchases of intangible assets		(680)	**(1,326)**
Loan to a joint venture		(71)	**(139)**
NET CASH USED IN INVESTING ACTIVITIES		(2,393)	**(3,192)**
FINANCING ACTIVITIES			
New borrowings raised		3,617	**15,905**
Interest paid		(699)	**(742)**
Repayments of borrowings		(3,042)	**(15,607)**
Decrease in non-trade balance due to fellow subsidiaries		(588)	**(45)**
Dividends paid	11	(1,289)	**(2,733)**
NET CASH USED IN FINANCING ACTIVITIES		(2,001)	**(3,222)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		113	**(299)**
Exchange differences		-	**(7)**
CASH AND CASH EQUIVALENTS			
Beginning of year		1,237	**1,350**
End of year	26(c)	1,350	**1,044**

The notes on pages 9 to 58 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Telecommunications (HKT) Limited (the "Company") is a limited liability company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). The address of its registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

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

The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of wholesale mobile, local and international telecommunications services, internet access services, sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services in Hong Kong.

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

These consolidated financial statements have been approved for issue by the Board on April 4, 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These 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").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations, in the preparation of the consolidated financial statements.

- Amendment to HKAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Since the change in accounting standard only affects the presentation aspects of the financial statements, there is no impact on earnings per share. These consolidated financial statements for the year ended December 31, 2013 have been prepared under the revised disclosure requirements.

- HKFRS 12, 'Disclosures of Interests in Other Entities', provide the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Please refer to notes 3(vii) and 16 or further details of the required disclosure for interests in other entities as at December 31, 2013.

- HKFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned with other HKFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. Please refer to note 28(d) for further details of financial instruments measured at amortized costs but for which fair value is disclosed.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2013, but have no material effect on the Group's results and financial position for the current and prior accounting periods.

- HKAS 19 (2011), 'Employee Benefits'.
- HKAS 27 (2011), 'Separate Financial Statements'.
- HKAS 28 (2011), 'Investments in Associates and Joint Ventures'.
- HKFRS 1 (Revised) (Amendment), Accounting for Government Loans.
- HKFRS 7 (Amendment), Offsetting Financial Assets and Financial Liabilities.
- HKFRS 10, 'Consolidated Financial Statements'.
- HKFRS 10 (Amendment), Transition Disclosures.
- HKFRS 11, 'Joint Arrangements'.
- HKFRS 11 (Amendment), Transition Disclosures.
- HKFRS 12 (Amendment), Transition Disclosures.
- HK(IFRIC) – Int 20, 'Stripping Costs in the Production Phase of a Surface Mine'.
- Annual Improvements 2009-2011 Cycle published in June 2012 by HKICPA.

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 33.

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

- financial assets at fair value through profit or loss (see note 2(j)); and
- derivative financial instruments (see note 2(l)).

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 consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(h)). 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Subsidiaries (continued)

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

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

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

d. Joint arrangements

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

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

The Group has assessed the nature of its joint arrangement and determined it to be joint venture.

Investment in joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost. The Group's investment in joint venture includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Group's share of the joint venture's net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the joint venture and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax items of the joint venture's other comprehensive income.

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

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

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

e. Gaining or losing control

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

f. 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 2(k)(ii)):

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

- other items of plant and equipment.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Property, plant and equipment (continued)

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

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

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

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

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

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

g. Leased assets

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

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(t)(iii).

iii. Operating lease charges

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

The cost of acquiring land held under an operating lease is stated in the consolidated 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Goodwill

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

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 2(k)(ii)). In respect of the joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in joint venture.

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

i. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Group and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual year, 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 Group has the right to return a licence and expects 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 telecommunications services.

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

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

iii. Software

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

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

- it is technically feasible to complete the software so that it will be available for use;

- adequate technical, financial and other resources are available to complete the development and to use the software;

- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and

- the Group has power to obtain future economic benefits flowing from the underlying source.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Intangible assets (other than goodwill) (continued)

iv. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(k)(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.

j. Investments in equity securities

The Group classifies its investments in equity securities, other than interests in subsidiaries and interest in a joint venture, as financial assets at fair value through profit or loss.

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 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 consolidated income statement as incurred.

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 the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated income statement does not include any interest earned on the financial assets as these are recognized in accordance with the policies set out in note 2(t)(v) 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.

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

k. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in a joint venture: see note 2(k)(ii)) and other current and non-current receivables that are stated at cost or amortized cost 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 Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Impairment of assets (continued)

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

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.

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

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;
- interest in a joint venture; and
- goodwill.

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at 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 2(m)).

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 a current assets or liabilities.

m. Hedging

i. Fair value hedge

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

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

ii Cash flow hedge

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

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

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

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the 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 Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated income statement.

n. Inventories

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Inventories (continued)

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.

o. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)(i)).

p. Cash and cash equivalents

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

q. 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.

r. 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.

s. Provisions and contingent liabilities

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

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.

t. Revenue recognition

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

i. Telecommunications and other services

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

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed 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.

ii. Sales of goods

Revenue from sale 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Revenue recognition (continued)

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.

u. 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.

v. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Income tax (continued)

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

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

w. Employee benefits

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

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

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

iii. Share-based payments
PCCW, the HKT Trust and HKT Limited operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise 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 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 board of directors of PCCW and the boards of directors of HKT Management Limited (the trustee-manager of the HKT Trust) and HKT Limited may also grant shares of PCCW and Share Stapled Units (as the case may be), respectively, to employees of the participating subsidiaries of PCCW, HKT Limited and the HKT Trust at nil consideration under their share award schemes, under which the awarded shares or Share Stapled Units are either newly issued at par value (the "PCCW Subscription Scheme" and the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "PCCW Purchase Scheme" and the "HKT Share Stapled Units Purchase Scheme").

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Employee benefit (continued)

iii. Share-based payments (continued)

The PCCW Subscription Scheme and the HKT Share Stapled Units Subscription Scheme are accounted for as equity-settled share-based payments. The fair values of the awarded PCCW shares and Share Stapled Units are measured by the quoted market prices of PCCW shares and Share Stapled Units at grant date. The fair value of the employee services received in exchange for the grant of PCCW shares and Share Stapled Units are recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding increase in the capital contribution from shareholders in respect of employee share-based compensation under equity.

The PCCW Purchase Scheme and the HKT Share Stapled Units Purchase Scheme are accounted for as cash-settled share-based payments. The fair values of the awarded PCCW shares and Share Stapled Units represent the quoted market prices of PCCW shares and Share Stapled Units purchased from the open market and are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares and Share Stapled Units are 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 Group by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under the share award schemes of PCCW as described above. The fair value of the PCCW shares granted by the 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.

x. Translation of foreign currencies

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

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Related parties

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

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

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

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

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

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

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

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.

z. Segment reporting

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

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenue and incur expenses, and is monitored on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's CODM in order to allocate resources and assess performance of the segment.

aa. Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 14 and 28 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments respectively. Other key sources of estimation uncertainty are discussed below:

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

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

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interest in a joint venture; and
- goodwill.

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

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

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

ii. Revenue recognition

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed 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 Group is required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty (continued)

ii. Revenue recognition (continued)

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

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

iii. Deferred income tax

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

iv. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these disputes or judgments 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.

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

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

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

During the year ended December 31, 2013, the Group performed a review to reassess the useful lives of certain exchange equipment and transmission plant of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from January 1, 2013. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2013 increased by HK$87 million and the net assets as at December 31, 2013 increased by HK$87 million.

vi. Recognition of intangible asset - carrier licences

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

vii. Classification of joint arrangements

The Group has made investments in joint arrangements 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. Therefore these joint arrangements are classified as joint ventures of the Group.

4 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note(s)	2012	**2013**
Telecommunications service fees and interest income received or receivable from a joint venture	(a)	22	**29**
Telecommunications service fees and finance charges paid or payable to a joint venture	(a)	42	**97**
Rental charges paid or payable to a related company	(a)	44	**49**
Telecommunications service fees, IT and logistics charges, management fee, interest income and other recharge costs received or receivable from fellow subsidiaries	(a)&(c)	1,195	**867**
Rental charges received or receivable from a fellow subsidiary	(a)	35	**42**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	(a)	1,841	**2,258**
Rental and facilities management charges paid or payable to fellow subsidiaries	(a)	75	**72**
Interest paid/payable to an intermediate holding company	(a)&(c)	46	**39**

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

b. Key management compensation for the year ended December 31, 2013 was borne by fellow subsidiaries of the Company (2012: same).

c. The balances with related companies are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2012 and 2013.

   The balance due to an intermediate holding company is unsecured, non-interest bearing, and has no fixed repayment terms except for a loan of HK$7,437 million (2012: HK$7,437 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2012: HIBOR plus 0.3% per annum) and repayable within one year.

   The balances with fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms, except for a loan due to a fellow subsidiary of US$5 million (2012: US$5 million) which bears interest at the London Interbank Offered Rate ("LIBOR"), and loans due from fellow subsidiaries of RMB43 million and GBP 20 million, which are interest bearing at 6% per annum and LIBOR plus 1% per annum, respectively.

5 TURNOVER AND SEGMENT INFORMATION

a. Turnover

In HK$ million	2012	**2013**
Local data and broadband services	5,648	**5,658**
Local telephony services	3,556	**3,606**
CPE sales and services	2,460	**2,425**
International telecommunications services	880	**796**
Mobile services	703	**476**
Other services	209	**382**
	13,456	**13,343**

5 TURNOVER AND SEGMENT INFORMATION (continued)

b. Segment information

The directors consider that the Group as a whole is an operating segment since the Group is only engaged in local and international telecommunications and related business. No geographical information has been disclosed as the majority of the Group's operating activities are carried out in Hong Kong. The Group's assets located and operating revenue derived from activities outside Hong Kong are less than 5% of the Group's assets and operating revenue, respectively.

6 OTHER GAINS, NET

In HK$ million	2012	**2013**
Net gain on cash flow hedging instruments transferred from equity	19	**21**
Net gain on fair value hedging instruments	-	**42**
Others	2	**-**
	21	**63**

7 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2012	**2013**
Salaries, bonuses and other benefits	657	**769**
Share-based compensation expenses	6	**12**
Retirement costs for staff under contribution retirement schemes	116	**117**
	779	**898**

b. Other items

In HK$ million	2012	**2013**
Charging/(crediting):		
Impairment loss for doubtful debts	57	**57**
Write-back of provision for inventory obsolescence	(8)	**(5)**
Depreciation of property, plant and equipment	1,705	**1,536**
Amortization of land lease premium	13	**12**
Amortization of intangible assets	1,686	**1,627**
Cost of inventories sold	1,918	**1,870**
Cost of sales, excluding inventories sold	2,054	**2,603**
Exchange gains, net	(40)	**4**
Cash flow hedges: transferred from equity	37	**(10)**
Auditor's remuneration	3	**6**
Operating lease rental		
- equipment	50	**66**
- other assets (including property rentals)	431	**550**

8 FINANCE COSTS, NET

In HK$ million	2012	**2013**
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	(265)	**(301)**
Other borrowings wholly repayable within 5 years	(571)	**(467)**
Other borrowings not wholly repayable within 5 years	-	**(100)**
Notional accretion on carrier licence fee liabilities	(68)	**(60)**
Other borrowing costs	(5)	**(43)**
Cash flow hedges: transferred from equity	(1)	**(1)**
(Losses)/gains on fair value hedges (note (a))	(4)	**5**
	(914)	**(967)**
Interest capitalized in property, plant and equipment (note (b))	39	**45**
Total finance costs	(875)	**(922)**
Interest income	15	**39**
Finance costs, net	(860)	**(883)**

a. (Losses)/gains on fair value hedges represents fair value losses on derivative financial instruments on fair value hedges of HK$457 million (2012: gain of HK$38 million) and fair value credit adjustment of borrowings attributable to interest rate risk of HK$462 million (2012: charge of HK$42 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.68% to 4.50% for the year ended December 31, 2013 (2012: 4.54% to 4.70%).

9 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended December 31, 2013 were borne by fellow subsidiaries of the Company (2012: same).

10 INCOME TAX

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

In HK$ million	2012	**2013**
Hong Kong profits tax		
- provision for current year	(437)	**(217)**
- overprovision for prior year	3	**-**
Movement of deferred income tax (note 24(a))	13	**(81)**
	(421)	**(298)**

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year.

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

In HK$ million	2012	**2013**
Profit before income tax	2,465	**1,867**
Notional tax on profit before income tax, calculated at applicable tax rate	(407)	**(308)**
Income not subject to tax	1	**6**
Expenses not deductible for tax purposes	(3)	**-**
Overprovision in prior year	3	**-**
Utilization of previously unrecognized tax loss	-	**4**
Reversal of previously recognized tax loss	(15)	**-**
Income tax expense	(421)	**(298)**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DIVIDENDS

In HK$ million	2012	**2013**
First interim dividend declared and paid in respect of the current year	1,289	**1,348**
Final dividend declared and paid during the year in respect of the previous financial year	-	**1,385**
Final dividend proposed after the balance sheet date	1,385	**-**
Second interim dividend declared after the balance sheet date	-	**1,553**

Dividends proposed/declared after the balance sheet date have not been recognized as liabilities as at the balance sheet date.

12 PROPERTY, PLANT AND EQUIPMENT

In HK$ million			2012			
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,077	18,597	16,551	10,515	544	47,284
Additions	-	191	171	171	1,154	1,687
Transfers	-	164	159	83	(455)	(49)
Disposals	-	(542)	(11)	(93)	-	(646)
End of year	1,077	18,410	16,870	10,676	1,243	48,276
Accumulated depreciation and impairment						
Beginning of year	531	15,370	11,066	8,546	-	35,513
Charge for the year	20	808	517	360	-	1,705
Transfers	-	(49)	-	-	-	(49)
Disposals	-	(541)	(11)	(91)	-	(643)
End of year	551	15,588	11,572	8,815	-	36,526
Net book value						
End of year	526	2,822	5,298	1,861	1,243	11,750
Beginning of year	546	3,227	5,485	1,969	544	11,771

12 PROPERTY, PLANT AND EQUIPMENT (continued)

In HK$ million	2013					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	**1,077**	**18,410**	**16,870**	**10,676**	**1,243**	**48,276**
Additions	**-**	**406**	**146**	**174**	**1,061**	**1,787**
Transfers	**-**	**350**	**604**	**244**	**(1,198)**	**-**
Disposals	**(3)**	**(552)**	**(35)**	**(22)**	**-**	**(612)**
End of year	**1,074**	**18,614**	**17,585**	**11,072**	**1,106**	**49,451**
Accumulated depreciation and impairment						
Beginning of year	**551**	**15,588**	**11,572**	**8,815**	**-**	**36,526**
Charge for the year	**20**	**676**	**486**	**354**	**-**	**1,536**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**(1)**	**(552)**	**(35)**	**(22)**	**-**	**(610)**
End of year	**570**	**15,712**	**12,023**	**9,147**	**-**	**37,452**
Net book value						
End of year	**504**	**2,902**	**5,562**	**1,925**	**1,106**	**11,999**
Beginning of year	**526**	**2,822**	**5,298**	**1,861**	**1,243**	**11,750**

The carrying amount of buildings of the Group is analyzed as follows:

In HK$ million	2012	**2013**
Held in Hong Kong		
On long-term lease (over 50 years)	37	**36**
On medium-term lease (10-50 years)	489	**468**
	526	**504**

13 INTERESTS IN LEASEHOLD LAND

In HK$ million	2012	**2013**
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	220	**233**
Charge for the year	13	**12**
End of year	233	**245**
Net book value		
End of year	303	**291**
Beginning of year	316	**303**

The carrying amount of interests in leasehold land of the Group is analyzed as follows:

In HK$ million	2012	**2013**
Held in Hong Kong		
On long-term lease (over 50 years)	29	**28**
On medium-term lease (10-50 years)	274	**263**
	303	**291**

14 GOODWILL

In HK$ million	2012	**2013**
Cost		
Beginning and end of year	32,592	**32,592**
Carrying amount		
Beginning and end of year	32,592	**32,592**

The recoverable amount of the CGU is determined based on value-in-use calculations. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations in 2013 are as follows:

	2012			**2013**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
Local telephony and data services	70%	1%	8%	**70%**	**1%**	**10%**

These assumptions have been used for the analysis of the CGU.

There was no indication of impairment arising from review on goodwill as at October 31, 2013.

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 CGU.

15 INTANGIBLE ASSETS

In HK$ million	2012						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	459	1,433	879	5,040	-	-	7,811
Additions	-	68	452	-	293	128	941
Write-off	-	-	(459)	-	-	(128)	(587)
End of year	459	1,501	872	5,040	293	-	8,165
Accumulated amortization							
Beginning of year	73	401	512	2,591	-	-	3,577
Charge for the year (note (a))	23	204	493	820	18	128	1,686
Write-off	-	-	(459)	-	-	(128)	(587)
End of year	96	605	546	3,411	18	-	4,676
Net book value							
End of year	363	896	326	1,629	275	-	3,489
Beginning of year	386	1,032	367	2,449	-	-	4,234

In HK$ million	**2013**						
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**459**	**1,501**	**872**	**5,040**	**293**	**-**	**8,165**
Additions	**-**	**99**	**605**	**-**	**302**	**149**	**1,155**
Write-off	**-**	**-**	**(451)**	**-**	**-**	**(136)**	**(587)**
End of year	**459**	**1,600**	**1,026**	**5,040**	**595**	**13**	**8,733**
Accumulated amortization							
Beginning of year	**96**	**605**	**546**	**3,411**	**18**	**-**	**4,676**
Charge for the year (note (a))	**23**	**233**	**466**	**719**	**37**	**149**	**1,627**
Write-off	**-**	**-**	**(451)**	**-**	**-**	**(136)**	**(587)**
End of year	**119**	**838**	**561**	**4,130**	**55**	**13**	**5,716**
Net book value							
End of year	**340**	**762**	**465**	**910**	**540**	**-**	**3,017**
Beginning of year	**363**	**896**	**326**	**1,629**	**275**	**-**	**3,489**

a. The amortization charge for the year is included in “General and administrative expenses” in the consolidated income statement.

16 INTEREST IN A JOINT VENTURE

In HK$ million	2012	**2013**
Share of net assets of a joint venture	-	**-**
Loan due from a joint venture	368	**519**
	368	**519**

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2012: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2013, particulars of the joint venture is as follows:

Company name	Principal place of business/Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	-	50%	Equity

GBL is a strategic partnership for the Group, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of the joint venture

As at December 31, 2013, the Group has the following commitments relating to its joint venture.

In HK$ million	2012	**2013**
Commitment to provide funding	105	**86**

There were no contingent liabilities relating to the Group's interest in the joint venture. The Group had no share of contingent liabilities relating to the joint venture as at December 31, 2013. As at December 31, 2012, the Group's share of contingent liabilities relating to its joint venture were bank guarantees of HK$75 million.

c. Summarized unaudited financial information of the Group's joint venture

Set out below is the summarized unaudited financial information for the joint venture and is accounted for using the equity method:

	GBL	
In HK$ million	2012	**2013**
Non-current assets	696	**1,119**
Current assets		
Cash and cash equivalents	119	**20**
Other current assets (excluding cash and cash equivalents)	13	**19**
Total current assets	132	**39**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(189)	**(240)**
Other current liabilities (including trade payables, accrual and other payables)	(14)	**(30)**
Total current liabilities	(203)	**(270)**
Non-current liabilities		
Financial liabilities (excluding trade payables)	(635)	**(897)**
Total non-current liabilities	(635)	**(897)**
Net liabilities and equity attributable to equity holders	(10)	**(9)**

16 INTEREST IN A JOINT VENTURE (continued)

c. Summarized unaudited financial information of the Group's joint venture (continued)

In HK$ million	2012	**2013**
Turnover	83	**194**
Depreciation and amortization	(43)	**(79)**
Interest expense	(17)	**(31)**
(Loss)/profit after income tax and total comprehensive (loss)/income	(9)	**1**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture.

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in a joint venture.

In HK$ million	2012	**2013**
Net liabilities		
Beginning of year	(1)	**(10)**
(Loss)/profit for the year	(9)	**1**
End of year	(10)	**(9)**
Interest in joint venture	50%	**50%**
Interest in joint venture	(5)	**(5)**
Loan due from a joint venture	373	**524**
Carrying value	368	**519**

During the year ended December 31, 2013, the Group did not have any unrecognized share of losses of joint venture (2012: nil). As at December 31, 2013, there was no accumulated share of losses of the joint venture unrecognized by the Group (2012: nil).

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2012	**2013**
Market value of listed securities	12	**18**
Less: Securities held for employee share award to be vested within one year classified as current assets	(6)	**(12)**
Non-current portion	6	**6**

Financial assets at fair value through profit or loss represent shares of PCCW and Share Stapled Units acquired under the PCCW Purchase Scheme and the HKT Share Stapled Units Purchase Scheme, respectively. Please refer to notes 23(c)(iii) and 23(c)(ii) for details of the share award schemes of PCCW and Share Stapled Units award schemes of HKT Limited and the HKT Trust, respectively.

18 INVENTORIES

In HK$ million	2012	**2013**
Work-in-progress	280	**255**
Finished goods	393	**430**
Consumable inventories	98	**65**
	771	**750**

19 TRADE RECEIVABLES, NET

In HK$ million	2012	**2013**
Trade receivables	1,416	**1,359**
Less: Impairment loss on doubtful debts (note (i))	(21)	**(21)**
Trade receivables, net	1,395	**1,338**

(i) 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	2012	**2013**
Beginning of year	18	**21**
Impairment loss recognized	57	**57**
Uncollectable amounts write off	(54)	**(57)**
End of year	21	**21**

As at December 31, 2013, the Group's trade receivables of HK$21 million (2012: HK$21 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, no specific provision for doubtful debts is recognized for the years ended December 31, 2012 and 2013. The Group does not hold any collateral over these balances.

(ii) Trade receivables that are not impaired
The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	2012	**2013**
Neither past due nor impaired	815	**580**
0-30 days past due	160	**274**
31-60 days past due	83	**90**
61-90 days past due	43	**31**
Over 90 days past due	294	**363**
Past due but not impaired	580	**758**
	1,395	**1,338**

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 Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20 SHORT-TERM AND LONG-TERM BORROWINGS

In HK$ million	2012	**2013**
Repayable within a period		
- not exceeding one year	8,462	**-**
- over one year, but not exceeding two years	2,292	**3,868**
- over two years, but not exceeding five years	13,352	**16,774**
- over five years	-	**3,380**
	24,106	**24,022**
Representing:		
US$500 million 6% guaranteed notes due 2013 (note (a))	3,873	**-**
US$500 million 5.25% guaranteed notes due 2015 (note (b))	3,861	**3,868**
US$500 million 4.25% guaranteed notes due 2016 (note (c))	4,016	**3,961**
US$500 million 3.75% guaranteed notes due 2023 (note(d))	-	**3,380**
Bank borrowings	12,356	**12,813**
	24,106	**24,022**
Secured	-	**-**
Unsecured	24,106	**24,022**

a. US$500 million 6% guaranteed notes due 2013 (the "Notes due 2013")
In July 2003, PCCW-HKT Capital No.2 Limited, a direct wholly-owned subsidiary of the Company, issued US$500 million 6% guaranteed notes due 2013 which were listed on the Luxembourg Stock Exchange. The Notes due 2013 are irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKT Group Holdings Limited ("HKTGH") and the Company and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and the Company.

The notes were fully redeemed in July 2013 and were delisted from the Luxembourg Stock Exchange.

b. US$500 million 5.25% guaranteed notes due 2015 (the "Notes due 2015")
In July 2005, PCCW-HKT Capital No.3 Limited, a direct wholly-owned subsidiary of the Company, 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, HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and the Company.

20 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

c. US$500 million 4.25% guaranteed notes due 2016 (the "Notes due 2016")

In August 2010, PCCW-HKT Capital No.4 Limited, a direct wholly-owned subsidiary of the Company, 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 HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

d. US$500 million 3.75% guaranteed notes due 2023 (the "Notes due 2023")

In March 2013, PCCW-HKT Capital No.5 Limited, a direct wholly-owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023 which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2023 are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

Please refer to note 31 for details of the Group's bank loan facilities.

21 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2012	**2013**
Non-current assets		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	65	**67**
Fixed-to-floating cross currency swap contracts - cash flow hedges (note (b))	22	**-**
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	166	**-**
	253	**67**
Current asset		
Fixed-to-fixed cross currency swap contracts - cash flow hedges (note (a))	4	**-**
Non-current liability		
Fixed-to-floating cross currency swap contracts - fair value hedges (note (b))	-	**405**

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As at December 31, 2013, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,000 million (approximately HK$7,755 million) (2012: US$1,500 million (approximately HK$11,627 million)), at various rates, to manage the Group's 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) The fixed-to-fixed cross currency swap contract outstanding as at December 31, 2013 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2012: US$1,000 million (approximately HK$7,751 million)) was designated as cash flow hedge of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of this swap matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 as at December 31, 2013 (2012: 7.7790 to 7.8014) for the notional amounts (see note 28(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contract will be continuously released to the consolidated income statement until the repayment of the borrowings.

(b) The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2013 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2012: US$500 million (approximately HK$3,876 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.757 as at December 31, 2013 (2012: 7.7708 to 7.7711) for the notional amounts (see note 28(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (2012: HIBOR plus 2.24%) (see note 28(c)(ii)).

These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's 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 statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to a gain of approximately HK$5 million (2012: a loss of HK$4 million) for the year ended December 31, 2013 (see note 8).

22 SHARE CAPITAL

	2012		**2013**	
	Number of Shares	Nominal value HK$ million	**Number of Shares**	**Nominal value HK$ million**
Authorized:				
Ordinary shares of HK$1 each				
Beginning and end of year	2,730,000,000	2,730	**2,730,000,000**	**2,730**
Issued and fully paid:				
Ordinary shares of HK$1 each				
Beginning and end of year	2,488,200,001	2,488	**2,488,200,001**	**2,488**

23 EMPLOYEE BENEFITS

a. Defined contribution retirement schemes

The Group participates in 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 operated by HKT Services Limited, a fellow subsidiary of the Company, and administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. 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 Share option schemes of PCCW

PCCW had 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 the Company, 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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

The 2004 PCCW Scheme will expire on May 19, 2014 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the termination of the 2004 PCCW Scheme and the adoption of a new scheme. Following the termination of the 2004 PCCW Scheme, no further option will be granted under such scheme, and the provisions of the 2004 PCCW Scheme will remain in full force and effect in all other respects.

23 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

i. 1994 and 2004 Share option schemes of PCCW (continued)

(1) Movements in the number of share options outstanding and their related weighted average exercise prices

In HK$	2012 Weighted average exercise price	2012 Number of options	**2013 Weighted average exercise price**	**2013 Number of options**
Beginning of year	5.28	9,688,001	**4.35**	**4,535,001**
Net addition due to transfer of employees from fellow subsidiaries (note 3)	4.35	7,000	**4.35**	**44,000**
Cancelled/lapsed (note 6)	6.09	(5,160,000)	**4.35**	**(4,579,001)**
End of year (note 2)	4.35	4,535,001	**N/A**	**-**
Exercisable at end of year		4,535,001		**-**

(2) Terms of unexpired and unexercised share options as at the balance sheet date

Date of grant	Vesting period	Exercise period	Exercise Price HK$	Number of options 2012	**Number of options 2013**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.35	4,535,001	**-**
				4,535,001	**-**

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

Range of exercise prices	2012 Weighted average remaining contractual life (years)	2012 Number of options	**2013 Weighted average remaining contractual life (years)**	**2013 Number of options**
HK$4.01 to 5.04	0.56	4,535,001	**N/A**	**-**
		4,535,001		**-**

(3) Details of share option transferred from fellow subsidiaries to the Group with employee transferred during the year:

Date of grant	Vesting period	Exercise period	Exercise Price HK$	Number of options 2012	**Number of options 2013**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.35	7,000	**44,000**
				7,000	**44,000**

(4) There were no share options granted during the year (2012: Nil).

23 EMPLOYEE BENEFITS (continued)

b. Equity compensation benefits (continued)

i. 1994 and 2004 Share option schemes of PCCW (continued)

(5) There were no share options exercised during the year (2012: Nil).

(6) Details of share options cancelled or lapsed during the year:

Exercise year	Exercise price HK$	Number of options 2012	**2013**
November 13, 2003 to November 12, 2012	6.15	4,980,000	-
July 25, 2004 to July 23, 2013	4.35	180,000	**4,579,001**
		5,160,000	**4,579,001**

c. Other equity compensation benefits

i. 2011-2021 Share Stapled Units option scheme of the HKT Trust and HKT Limited

On November 7, 2011 (the "Adoption Date"), the HKT Trust and HKT Limited conditionally adopted a Share Stapled Units option scheme (the "HKT 2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units, to enable the HKT Trust and HKT Limited, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of HKT Limited and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of HKT Limited 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 HKT Limited and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the HKT Trust and HKT Limited and its subsidiaries and to provide the HKT Trust and HKT Limited and its subsidiaries with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at December 31, 2012 and 2013 and no options were granted to or exercised by any directors of the Company or employees of the Group nor cancelled or lapsed during the years ended December 31, 2012 and 2013.

ii. Share Stapled Units Award Schemes of HKT Limited

On October 11, 2011, HKT Limited 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 "HKT Share Stapled Units Award Schemes").

The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT Limited which became effective upon listing of the Share Stapled Units 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 HKT Limited and/or any of its subsidiaries; and

(2) any director (including executive, non-executive and independent non-executive director) of HKT Limited 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 HKT Limited or its subsidiaries and/or any other connected persons of HKT Limited.

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.

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

ii. Share Stapled Units Award Schemes of HKT Limited (continued)

The HKT Share Stapled Units Award Schemes are administered by the board of directors of HKT Limited (the "HKT 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 shall vest over a period of time provided that the eligible participant remains an employee of the 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 HKT Board shall be at liberty to waive such condition.

Awards may be made by the HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2012 and 2013.

A summary of movements in the Share Stapled Units held by the Group under the HKT Share Stapled Units Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Number of Share Stapled Units	
	2012	**2013**
Beginning of year	-	**841,786**
Purchase from the market by the Trustee at the weighted average market price of HK$7.96 (2012: HK$6.07) per Share Stapled Unit	846,248	**997,871**
Forfeited	(4,462)	**(18,762)**
Reduction due to the transfer of employees to a fellow subsidiary	-	**(6,674)**
Share Stapled Units vested	-	**(401,647)**
End of year	841,786	**1,412,574**

Details of Share Stapled Units awarded to eligible employees of the Group pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units held by the Group are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	2012		**2013**	
	Weighted average fair value at date of award HK$	Number of Share Stapled Units	**Weighted average fair value at date of award HK$**	**Number of Share Stapled Units**
Beginning of year	-	-	**5.98**	**841,786**
Awarded (note (3))	5.98	846,248	**7.59**	**997,871**
Forfeited (note (4))	5.98	(4,462)	**6.95**	**(18,762)**
Vested (note (5))	-	-	**5.98**	**(401,647)**
Transfer of employees to a fellow subsidiary (note (6))	-	-	**6.89**	**(6,674)**
End of year (note (2))	5.98	841,786	**7.10**	**1,412,574**

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

ii. Share Stapled Units Award Schemes of HKT Limited (continued)

(2) Terms of unvested Share Stapled Units held by the Group as at balance sheet date

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	402,192	-
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	439,594	**429,795**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**491,511**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**491,268**
			841,786	**1,412,574**

The unvested Share Stapled Units held by the Group at December 31, 2013 had a weighted average remaining vesting period of 0.58 years (2012: 0.8 years).

(3) Details of Share Stapled Units awarded to eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	404,424	-
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	441,824	-
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**499,060**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**498,811**
			846,248	**997,871**

(4) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	2,232	**545**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	2,230	**6,897**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**5,662**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**5,658**
			4,462	**18,762**

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

ii. Share Stapled Units Award Schemes of HKT Limited (continued)

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2012	2013
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	-	**401,647**
			-	**401,647**

(6) Details of unvested Share Stapled Units transfer of employees to a fellow subsidiary during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2012	2013
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	-	**2,902**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	-	**1,887**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	-	**1,885**
			-	**6,674**

The fair value of the Share Stapled Units awarded to eligible employees of the Group 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 ended December 31, 2013, share-based compensation expenses of HK$7 million (2012: HK$3 million) is recognized for HKT Share Stapled Units Award Schemes in the consolidated income statement and a corresponding HK$7 million (2012: HK$3 million) is recognized as an obligation in liabilities.

iii. 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).

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

iii. Share award schemes of PCCW (continued)

The PCCW Purchase Scheme and the PCCW Subscription Scheme expired on November 15, 2012 however the shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the PCCW Purchase Scheme and the PCCW Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the 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, 2012 and 2013.

A summary of movements in PCCW shares held by the Group under the PCCW Purchase Scheme in respect of eligible employees of the Group during the year is as follows:

	Number of PCCW shares 2012	**2013**
Beginning of year	-	**1,577,607**
Purchase from the market by the Trustee at the weighted average market price of HK$3.90 (2012: HK$2.87) per PCCW share	1,582,988	**1,286,730**
Forfeited	(5,381)	**(23,653)**
Reduction due to the transfer of employees to a fellow subsidiary	-	**(8,231)**
PCCW shares vested	-	**(748,039)**
End of year	1,577,607	**2,084,414**

Details of PCCW shares awarded to eligible employee of the Group pursuant to the PCCW Purchase Scheme during the year and the unvested PCCW shares held by the Group are as follows:

(1) Movements in the number of unvested PCCW shares held by the Group and their related weighted average fair value on date of award

	2012		**2013**	
	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	-	-	**2.80**	**1,577,607**
Awarded (note (3))	2.80	1,582,988	**3.62**	**1,286,730**
Forfeited (note (4))	2.80	(5,381)	**3.16**	**(23,653)**
Transfer of employees to a fellow subsidiary (note (6))	-	-	**3.00**	**(8,231)**
Vested (note (5))	-	-	**3.98**	**(748,039)**
End of year (note (2))	2.80	1,577,607	**2.88**	**2,084,414**

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

iii. Share award schemes of PCCW (continued)

(2) Terms of unvested PCCW shares held by the Group at balance sheet date

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	748,539	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	829,068	**809,927**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**637,284**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**637,203**
			1,577,607	**2,084,414**

The unvested PCCW shares held by the Group at December 31, 2013 had a weighted average remaining vesting period of 0.55 years (2012: 0.80 years).

(3) Details of PCCW shares awarded to eligible employees of the Group during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	751,230	**-**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	831,758	**-**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**643,406**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**643,324**
			1,582,988	**1,286,730**

(4) Details of PCCW shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	2,691	**500**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	2,690	**12,910**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**5,122**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**5,121**
			5,381	**23,653**

(5) Details of PCCW shares vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	-	**784,039**

23 EMPLOYEE BENEFITS (continued)

c. Other equity compensation benefits (continued)

iii. Share award schemes of PCCW (continued)

(6) Details of unvested PCCW shares transferred of employees to a fellow subsidiary during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2012	**2013**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	-	**6,231**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	-	**1,000**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	-	**1,000**
			-	**8,231**

The fair value of the PCCW shares awarded to eligible employees of the Group 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$5 million (2012: HK$3 million) is recognized in the consolidated income statement and HK$5 million (2012: HK$3 million) is recognized as an obligation in liabilities.

24 DEFERRED INCOME TAX

a. Movement in deferred income tax liabilities/(assets) during the year is as follows:

In HK$ million	2012 Accelerated tax depreciation and amortization	Tax losses	Total
Beginning of year	1,586	(15)	1,571
(Credited)/charged to consolidated income statement (note 10(a))	(28)	15	(13)
End of year	1,558	-	1,558

In HK$ million	**2013** **Accelerated tax depreciation and amortization**	**Tax losses**	**Total**
Beginning of year	**1,558**	**-**	**1,558**
Charged to consolidated income statement (note 10(a))	**81**	**-**	**81**
End of year	**1,639**	**-**	**1,639**

In HK$ million	2012	**2013**
Deferred income tax assets	(28)	**(27)**
Deferred income tax liabilities	1,586	**1,666**
	1,558	**1,639**

24 DEFERRED INCOME TAX (continued)

a. Movement in deferred income tax liabilities/(assets) during the year is as follows: (continued)

In HK$ million	2012	**2013**
Deferred income tax assets:		
- to be recovered after more than 12 months	(24)	**(20)**
- to be recovered within 12 months	(4)	**(7)**
	(28)	**(27)**
Deferred income tax liabilities:		
- to be recovered after more than 12 months	1,390	**1,490**
- to be recovered within 12 months	196	**176**
	1,586	**1,666**
Deferred income tax liabilities recognized in the consolidated balance sheet (net)	1,558	**1,639**

b. As at December 31, 2013, no deferred income tax assets (2012: HK$ nil) have been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable, by considering the future taxable income. The Group has HK$249 million unutilized estimated tax losses for which no deferred income tax assets have been recognized (2012: HK$283 million) to carry forward for deduction against future taxable income and carried forward indefinitely.

25 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2013, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million

	2012			**2013**		
	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	200	9	209	**209**	**10**	**219**
- over one year, but not exceeding two years	159	23	182	**166**	**23**	**189**
- over two years, but not exceeding five years	345	97	442	**246**	**96**	**342**
- over five years	232	118	350	**204**	**96**	**300**
	936	247	1,183	**825**	**225**	**1,050**
Less: Amounts repayable within one year included under current liabilities	(200)	(9)	(209)	**(209)**	**(10)**	**(219)**
	736	238	974	**616**	**215**	**831**

26 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2012	**2013**
Profit before income tax	2,465	**1,867**
Adjustments for:		
Interest income	(15)	**(39)**
Interest expense	776	**783**
Finance charges	94	**145**
Losses/(gains) on fair value hedges	4	**(5)**
Cash flow hedges: transferred from equity	1	**1**
Net gain on cash flow hedging instruments transferred from equity	(19)	**(21)**
Net gain on fair value hedging instruments	-	**(42)**
Depreciation of property, plant and equipment	1,705	**1,536**
Gain on disposals of property, plant and equipment	(3)	**(13)**
Impairment loss for doubtful debts	57	**57**
Write-back of provision of inventory obsolescence	(8)	**(5)**
Amortization of intangible assets	1,686	**1,627**
Amortization of land lease premium	13	**12**
Share of result of a joint venture	4	**(1)**
Share-based payment	6	**12**
Increase in financial assets at fair value through profit or loss for equity compensation scheme	(12)	**(6)**
Decrease/(increase) in operating assets		
- inventories	31	**26**
- trade receivables	73	**-**
- prepayments, deposits and other current assets	(378)	**(588)**
- other non-current assets	(5)	**-**
(Decrease)/increase in operating liabilities		
- trade payables, accruals and other payables	(409)	**210**
- amounts due to fellow subsidiaries and the ultimate holding company	(1,388)	**833**
- amount due to related companies	1	**17**
- advances from customers	19	**1**
- other long term liabilities	(1)	**(3)**
- deferred income	(22)	**(11)**
Cash generated from operations	4,675	**6,393**
Interest received	4	**1**
Income tax paid	(172)	**(279)**
Net cash generated from operating activities	4,507	**6,115**

b. Major non-cash transaction

During the year ended December 31, 2012, the Group acquired certain software and content from fellow subsidiaries amounting to approximately HK$421 million, which was settled through offsetting with corresponding amounts due from fellow subsidiaries for cash received on behalf.

c. Analysis of cash and cash equivalents

In HK$ million	2012	**2013**
Cash and bank balances	1,350	**1,044**
Cash and cash equivalents as at December 31,	1,350	**1,044**

27 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity, other than the hedging reserve and merger reserve.

The adjusted capital as at December 31, 2013 was as follows:

In HK$ million	2012	**2013**
Total equity	17,804	**16,577**
Excluding:		
Hedging reserve	(177)	**(114)**
Merger reserve	695	**695**
Adjusted capital	18,322	**17,158**

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties.

28 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	2012			
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Total
Non-current assets				
Derivative financial instruments	-	-	253	253
Financial assets at fair value through profit or loss	-	6	-	6
Other non-current assets	29	-	-	29
	29	6	253	288
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	2,182	-	-	2,182
Trade receivables, net	1,395	-	-	1,395
Derivative financial instruments	-	-	4	4
Financial assets at fair value through profit or loss	-	6	-	6
Amounts due from related companies	13	-	-	13
Cash and cash equivalents	1,350	-	-	1,350
	4,940	6	4	4,950
Total	4,969	12	257	5,238

28 FINANCIAL INSTRUMENTS (continued)

The table below analyses financial instruments by category: (continued)

In HK$ million	2012 Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	8,462	8,462
Trade payables	524	524
Accruals and other payables	1,147	1,147
Carrier licence fee liabilities	200	200
Amounts due to fellow subsidiaries and an intermediate holding company	7,457	7,457
	17,790	17,790
Non-current liabilities		
Long-term borrowings	15,644	15,644
Carrier licence fee liabilities	736	736
Other long-term liabilities	35	35
	16,415	16,415
Total	34,205	34,205

In HK$ million	**2013** **Loans and receivables**	**Assets at fair value through profit or loss**	**Derivatives used for hedging**	**Total**
Non-current assets				
Derivative financial instruments	**-**	**-**	**67**	**67**
Financial assets at fair value through profit or loss	**-**	**6**	**-**	**6**
Other non-current assets	**29**	**-**	**-**	**29**
	29	**6**	**67**	**102**
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	**2,716**	**-**	**-**	**2,716**
Trade receivables, net	**1,338**	**-**	**-**	**1,338**
Financial assets at fair value through profit or loss	**-**	**12**	**-**	**12**
Amounts due from related companies	**23**	**-**	**-**	**23**
Cash and cash equivalents	**1,044**	**-**	**-**	**1,044**
	5,121	**12**	**-**	**5,133**
Total	**5,150**	**18**	**67**	**5,235**

28 FINANCIAL INSTRUMENTS (continued)

The table below analyses financial instruments by category: (continued)

In HK$ million	2013 Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	-	-
Trade payables	705	705
Accruals and other payables	1,104	1,104
Carrier licence fee liabilities	209	209
Amounts due to fellow subsidiaries and an intermediate holding company	8,245	8,245
	10,263	10,263
Non-current liabilities		
Long-term borrowings	24,022	24,022
Derivative financial instruments	405	405
Carrier licence fee liabilities	616	616
Other long-term liabilities	34	34
	25,077	25,077
Total	35,340	35,340

Exposures to credit, liquidity and market risks (including foreign currency risk, interest rate risk) arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity instruments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, amounts due from related companies and fellow subsidiaries, interest receivable, foreign exchange and swap contracts 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 year ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue amounts are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2012 and 2013, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

Amounts due from a related company and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2012 and 2013, the amounts due from a related company and other receivables are fully performing.

Investments, derivative financial instruments, interests receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheets. Except for the guarantees given by the Group as disclosed in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk.

28 FINANCIAL INSTRUMENTS (continued)

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of business. Please refer to note 30 for details.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK$ million	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 outflow	Carrying Amount
Current liabilities						
Short-term borrowings	(8,676)	-	-	-	(8,676)	(8,462)
Trade payables	(524)	-	-	-	(524)	(524)
Accruals and other payables	(1,147)	-	-	-	(1,147)	(1,147)
Carrier licence fee liabilities	(209)	-	-	-	(209)	(200)
Amounts due to fellow subsidiaries and an intermediate holding company	(7,457)	-	-	-	(7,457)	(7,457)
	(18,013)	-	-	-	(18,013)	(17,790)
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	(4)	(6)	(3)	(53)	(66)	(35)
	(415)	(2,905)	(14,051)	(403)	(17,774)	(16,415)
Total	(18,428)	(2,905)	(14,051)	(403)	(35,787)	(34,205)

28 FINANCIAL INSTRUMENTS (continued)

b. Liquidity risk (continued)

In HK$ million	2013 Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying Amount
Current liabilities						
Trade payables	(705)	-	-	-	(705)	(705)
Accruals and other payables	(1,104)	-	-	-	(1,104)	(1,104)
Carrier licence fee liabilities	(219)	-	-	-	(219)	(209)
Amounts due to fellow subsidiaries and an intermediate holding company	(8,245)	-	-	-	(8,245)	(8,245)
	(10,273)	-	-	-	(10,273)	(10,263)
Non-current liabilities						
Long-term borrowings	(665)	(4,462)	(17,304)	(4,288)	(26,719)	(24,022)
Derivative financial instruments	46	32	(113)	(465)	(500)	(405)
Carrier licence fee liabilities	-	(189)	(342)	(300)	(831)	(616)
Other long-term liabilities	(5)	(4)	(3)	(53)	(65)	(34)
	(624)	(4,623)	(17,762)	(5,106)	(28,115)	(25,077)
Total	(10,897)	(4,623)	(17,762)	(5,106)	(38,388)	(35,340)

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposures deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the HKT Board, determines the appropriate risk management activities with the aim of prudently manage 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 a transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses 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 of major currencies.

28 FINANCIAL INSTRUMENTS (continued)

c. Market risk (continued)

i. Foreign currency risk

Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2012 and 2013, a majority of the Group's short-term and long-term borrowings denominated in United States dollar were swapped into Hong Kong dollar by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2013 with an aggregate notional contract amount of US$1,000 million (approximately HK$7,755 million) (2012: US$1,500 million (approximately HK$11,627 million)) were designated as cash flow hedges or fair value 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 Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The following table details the Group's exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	2012 United States dollars	**2013 United States Dollars**
Trade receivables	38	**21**
Cash and cash equivalents	151	**401**
Trade payables	(153)	**(127)**
Short-term borrowings	(3,873)	**-**
Long-term borrowings	(7,877)	**(11,209)**
Gross exposure arising from recognized financial liabilities	(11,714)	**(10,914)**
Notional amounts of cross currency swap contracts designated as fair value or cash flow hedges	11,627	**7,755**
Overall net exposure	(87)	**(3,159)**

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year ended December 31, 2013 would have increased/decreased by approximately HK$26 million (2012: HK$1 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized financial assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2013 would have increased/decreased by approximately HK$39 million (2012: HK$116 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.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for recognized financial assets and liabilities in existence at the date, 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 period 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, 2012 and 2013.

28 FINANCIAL INSTRUMENTS (continued)

c. Market risk (continued)

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

The following table details the interest rate profile of the Group's borrowings as at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	2012		**2013**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term borrowings with cash flow hedging instruments	6.1	3,873	**-**	**-**
Long-term borrowings with/without cash flow hedging instruments	5.4	3,861	**4.3**	**7,829**
Variable rate borrowings:				
Bank borrowings	1.6	12,356	**1.7**	**12,813**
Long-term borrowings with fair value hedging instruments	4.5	4,016	**4.0**	**3,380**
Balance due to an intermediate holding company	0.6	7,476	**0.5**	**7,476**
Total borrowings		31,582		**31,498**

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 10 basis points, with all other variables held constant, the Group's profit after tax for the year ended December 31, 2013 would have decreased/increased by approximately HK$18 million (2012: HK$12 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 date and had been applied to the exposure to interest rate risk for the Group's 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 year until the next annual balance sheet date. The analysis is performed in the same basis for the years ended December 31, 2012 and 2013.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investment classified as financial assets at fair value through profit or loss (note 17). The investments are listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group equity price risk is minimal.

28 FINANCIAL INSTRUMENTS (continued)

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2012 and 2013 except as follows with fair values calculated by quoted prices:

In HK$ million	2012 Carrying amount	2012 Fair value	**2013 Carrying amount**	**2013 Fair value**
Short-term borrowings	8,462	8,557	**-**	**-**
Long-term borrowings	15,644	16,090	**24,022**	**24,501**

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 that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

In HK$ million	2012 Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	12	-	-	12
Derivative financial instruments	-	257	-	257
	12	257	-	269

In HK$ million	**2013 Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss	**18**	**-**	**-**	**18**
Derivative financial instruments	**-**	**67**	**-**	**67**
	18	**67**	**-**	**85**
Liabilities				
Derivative financial instrument	**-**	**405**	**-**	**405**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise 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.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2012 and 2013.

28 FINANCIAL INSTRUMENTS (continued)

f. Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Valuation results are reviewed by senior management semi-annually, in the line with the Group's reporting dates.

29 COMMITMENTS

a. Capital

In HK$ million	2012	**2013**
Authorized and contracted for	791	**682**
Authorized but not contracted for	540	**512**
	1,331	**1,194**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	2012	**2013**
Acquisition of property, plant and equipment	1,331	**1,194**

b. Operating leases

As at December 31, 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	2012	**2013**
Within 1 year	398	**426**
After 1 year but within 5 years	345	**351**
After 5 years	1	**1**
	744	**778**

Network capacity and equipment

In HK$ million	2012	**2013**
Within 1 year	4	**42**
After 1 year but within 5 years	-	**159**
After 5 years	-	**23**
	4	**224**

Majority of the leases typically run for a year of 1 to 11 years (2012: 1 to 12 years). None of the leases include contingent rentals.

30 CONTINGENT LIABILITIES

In HK$ million	2012	**2013**
Performance guarantees	26	**23**

The Group is subject to certain corporate guarantee obligations to guarantee performance of its 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.

31 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2013 were HK$17,676 million (2012: HK$23,182 million) of which the unused facilities amounted to HK$4,750 million (2012: HK$10,758 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangement with financial institutions. If the Group was to breach to covenants the drawn down facilities would become payable on demand. The Group's regularly monitors its compliance with these covenants. As at December 31, 2013, none of the covenants relating to drawn down facilities was breached. Further details of the Group's management of liquidity risk are set out in note 28(b).

A summary of major borrowings is set out in note 20.

32 POST BALANCE SHEET EVENT

On December 20, 2013, HKT Limited ("HKT") entered into a share purchase agreement with CSL New World Mobility Limited ("CSLNW"), Telstra Holdings (Bermuda) No. 2 Limited ("Telstra Bermuda"), Telstra Corporation Limited, Upper Start Holdings Limited ("Upper Start"), and New World Development Company Limited, whereby HKT has conditionally agreed to acquire the entire issued share capital of CSLNW from Telstra Bermuda and Upper Start, for the purchase price (excluding the estimated net cash amount) of US$2,425 million (equivalent to approximately HK$18,867 million), subject to certain price adjustments (being the estimated net cash amount and post completion adjustment to the base purchase price calculated in accordance with the methodology as set out in the share purchase agreement). Completion of the transaction is subject to certain conditions being satisfied, including approval of the Communications Authority. Following the completion of the transaction, HKT intends to reorganize the business of CSLNW by combining and integrating it with the Group and HKT's existing mobile telecommunications business under its mobile group of companies in order to unlock and make optimal use of available operational synergies and efficiencies.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED DECEMBER 31, 2013

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 year ended December 31, 2013 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Investment Entities	January 1, 2014
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	January 1, 2014
HKAS 36 (amendments)	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
HK (IFRIC) – Int 21	Levies	January 1, 2014
HKFRS 10 (Amendment)	Consolidated Financial Statements – Investment Entities	January 1, 2014
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities – Investment Entities	January 1, 2014
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014

33 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

		Effective for accounting periods beginning on or after
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 9	Financial Instruments	To be determined
Annual improvements 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual improvements 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014

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, 2013 and have not been adopted in these financial statements. The new Hong Kong Companies Ordinance will also be effective for the financial year beginning on or after March 3, 2014.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the year 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 Group's results of operations and financial position.

PCCW-HKT TELEPHONE LIMITED
(Incorporated in Hong Kong with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2013

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF PCCW-HKT TELEPHONE LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of PCCW-HKT Telephone Limited (the "Company") set out on pages 3 to 15, which comprise the balance sheet as at December 31, 2013, 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 of the Company 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 for such internal control as the directors determine is necessary to enable the preparation of 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 our agreed terms of engagement 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF PCCW-HKT TELEPHONE LIMITED
(CONTINUED)
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2013, and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 25, 2014

PCCW-HKT TELEPHONE LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	2012 HK$ million	2013 HK$ million
General and administrative expenses		-	-
Loss before income tax		-	-
Income tax	5	-	(148)
Loss for the year		-	(148)

The notes on pages 8 to 15 form part of these financial statements.

PCCW-HKT TELEPHONE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	2012 HK$ million	2013 HK$ million
Loss for the year	-	(148)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	-	(148)

The notes on pages 8 to 15 form part of these financial statements.

PCCW-HKT TELEPHONE LIMITED

BALANCE SHEET
AS AT DECEMBER 31, 2013

	Note	2012 HK$ million	2013 HK$ million
ASSETS			
Current assets			
Amounts due from holding companies and fellow subsidiaries	4(b)	2,178	2,178
Tax recoverable		425	277
		2,603	2,455
Net current assets		2,603	2,455
Net assets		2,603	2,455
CAPITAL AND RESERVES			
Share capital	7	2,164	2,164
Reserves		439	291
Total equity		2,603	2,455

Approved and authorized for issue by the board of directors (the "Board") on April 25, 2014 and signed on behalf of the Board by:

Director

Director

The notes on pages 8 to 15 form part of these financial statements.

PCCW-HKT TELEPHONE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	Share capital HK$ million	Share premium HK$ million	Other reserves HK$ million	Retained profits/ (accumulated losses) HK$ million	Total HK$ million
At January 1, 2012		2,164	397	42	5,626	8,229
Total comprehensive loss for the year						
Loss for the year		-	-	-	-	-
Total other comprehensive income		-	-	-	-	-
		-	-	-	-	-
Total contributions by and distributions to equity holders recognized in equity						
Dividend in specie declared and distributed in respect of the current year	6	-	-	-	(5,626)	(5,626)
At December 31, 2012		2,164	397	42	-	2,603
At January 1, 2013		2,164	397	42	-	2,603
Total comprehensive loss for the year						
Loss for the year		-	-	-	(148)	(148)
Total other comprehensive income		-	-	-	-	-
		-	-	-	(148)	(148)
Total contributions by and distributions to equity holders recognized in equity		-	-	-	-	-
At December 31, 2013		2,164	397	42	(148)	2,455

The notes on pages 8 to 15 form part of these financial statements.

PCCW-HKT TELEPHONE LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2012 HK$ million	2013 HK$ million
Operating activities		
Loss before income tax	-	-
Increase in amounts due from holding companies and fellow subsidiaries	(1)	-
Net cash used in operating activities	(1)	-
Investing activities		
Net cash generated from investing activities	-	-
Financing activities		
Net cash generated from financing activities	-	-
Net decrease in cash and cash equivalents	(1)	-
Cash and cash equivalents		
Beginning of year	1	-
End of year	-	-

Non-cash transaction

In November 2012, the Company declared a final dividend by a distribution in specie in an aggregate amount of approximately HK$5,626 million for the year ended March 31, 2012 (note 6). The Company settled the distribution in specie in December 2012. No such dividend was declared in 2013.

The notes on pages 8 to 15 form part of these financial statements.

PCCW-HKT TELEPHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

PCCW-HKT Telephone Limited (the "Company") is a limited liability company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). The address of its registered office is 41st Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The Company had no trading activities during the year.

The Company is a direct wholly-owned subsidiary of PCCW-HKT CAS Limited, which is a limited liability company incorporated in Hong Kong. The directors consider PCCW Limited ("PCCW"), a limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company of the Company.

These financial statements are presented in millions of units of Hong Kong dollars (HK$ million), which is the presentation and functional currency of the Company, unless otherwise stated.

These financial statements have been approved for issue by the Board on April 25, 2014.

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. A summary of the principal accounting policies adopted by the Company is set out below.

(b) Basis of preparation of the financial statements

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. There were no new and revised HKFRSs relevant to the Company's operations for adoption in the current and prior accounting periods.

The Company has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 11.

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.

2 Basis of preparation and principal accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

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 adjustment in the next year are discussed in note 3.

(c) Impairment of assets

Receivables from holding companies and fellow subsidiaries 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 Company 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; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization.

If any such evidence exists, 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. Impairment losses are written off against the corresponding assets directly.

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 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.

(d) Provisions and contingent liabilities

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

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

2 Basis of preparation and principal accounting policies (Continued)

(e) Financial guarantees issued

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of fellow subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the management's judgement. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

Where guarantees in relation to loans or other payables of fellow subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment in the financial statements of the Company.

(f) 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 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 income 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 years.

(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 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 are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

2 Basis of preparation and principal accounting policies (Continued)

(f) Income tax (Continued)

(iii) (Continued)

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 Company has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

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

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

(g) 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.

2 Basis of preparation and principal accounting policies (Continued)

(h) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key source of estimation uncertainty is discussed below.

Current income tax

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

4 Related party transactions

(a) Key management compensation of the Company for the years ended December 31, 2012 and 2013 were borne by a fellow subsidiary of the Company.

(b) Balances with holding companies and fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

5 Income tax

	2012 HK$ million	2013 HK$ million
Hong Kong profits tax		
- Underprovision in respect of prior years	-	148

No Hong Kong profits tax had been provided as the Company had no assessable profits for the years ended December 31, 2012 and 2013.

Reconciliation between income tax expense and loss before income tax at applicable tax rates:

	2012 HK$ million	2013 HK$ million
Loss before income tax	-	-
Tax calculated at tax rate of 16.5% (2012: 16.5%)	-	-
Underprovision in respect of prior years	-	148
Income tax expense	-	148

The Company had no unrecognized tax losses as at December 31, 2012 and 2013.

No deferred income tax asset or liability was recognized as at December 31, 2012 and 2013.

6 Dividend in specie

In November 2012, the Company declared a final dividend by a distribution in specie in an aggregate amount of approximately HK$5,626 million for the year ended March 31, 2012. The dividend was settled by a distribution in specie of amount due from PCCW-HKT CAS Limited, the immediate holding company of the Company, in the sum of approximately HK$1,676 million, and amount due from PCCW, the ultimate holding company of the Company, in the sum of approximately HK$3,950 million. The dividend was approved by the shareholders of the Company in November 2012. The Company settled the distribution in specie in December 2012. No such dividend was declared in 2013.

7 Share capital

	2012 HK$ million	2013 HK$ million
Authorized:		
2,500,000,000 ordinary shares of HK$1 each	2,500	2,500
Issued and fully paid:		
2,163,783,209 ordinary shares of HK$1 each	2,164	2,164

8 Capital management

The Company regards total equity as the capital. The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company monitors capital by reviewing the level of capital that is at the disposal of the Company.

The Company is not exposed to externally imposed capital requirements.

9 Financial risk management

Exposure to credit risk arises in the normal course of the Company's business. Exposures to this risk is controlled by the Company's financial management policies and practices described below.

(i) Credit risk

The Company's credit risk is primarily attributable to the amounts due from holding companies and fellow subsidiaries. The Company is not exposed to material credit risk as the amounts due from holding companies and fellow subsidiaries 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 and 2013, the amounts due from holding companies and fellow subsidiaries were fully performing.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet on page 5 of the financial statements.

(ii) Fair value

The amounts due from holding companies and fellow subsidiaries are carried at amounts not materially different from their fair values as at December 31, 2012 and 2013.

10 Contingent liabilities

As at December 31, 2013, the Company had given unconditional and irrevocable guarantee in respect of guaranteed notes issued by the following fellow subsidiary of the Company, as to payment of principal and interest in favour of the holders of the guaranteed notes.

Name of issuer	Year of expiry	Outstanding principal of guaranteed notes at December 31, 2013
PCCW-HKT Capital No.3 Limited	2015	US$500 million

11 Possible impact of amendments, new or revised standards and interpretations and new ordinances issued but not yet effective for the annual accounting period ended December 31, 2013

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, 2013 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Investment Entities	January 1, 2014
HKAS 32 (Amendment)	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	January 1, 2014
HKAS 36 (Amendment)	Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
HK(IFRIC) – Int 21	Levies	January 1, 2014
HKFRS 10 (Amendment)	Consolidated Financial Statements – Investment Entities	January 1, 2014
HKFRS 12 (Amendment)	Disclosure of Interests in Other Entities – Investment Entities	January 1, 2014
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 9	Financial Instruments	To be determined
Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014

11 Possible impact of amendments, new or revised standards and interpretations and new ordinances issued but not yet effective for the annual accounting period ended December 31, 2013 (Continued)

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2013 and have not been adopted in these financial statements. The new Hong Kong Companies Ordinance will also be effective for the financial year beginning on or after March 3, 2014.

The Company is in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations and the new ordinances would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, new interpretations and the new ordinances would have a significant impact on the Company's results of operations and financial position.