Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

The directors ("Directors") of PCCW Limited ("PCCW" or the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2016.

- Core revenue decreased by 2% to HK$38,210 million; core revenue (excluding Mobile handset sales) increased by 2% to HK$34,785 million. Consolidated revenue (including PCPD) decreased by 2% to HK$38,384 million; consolidated revenue (excluding Mobile handset sales) increased by 2% to HK$34,959 million
- Core EBITDA increased by 3% to HK$12,506 million; consolidated EBITDA (including PCPD) increased by 3% to HK$12,226 million
- Core profit attributable to equity holders of the Company increased by 1% to HK$2,388 million; consolidated profit attributable to equity holders of the Company decreased by 11% to HK$2,051 million. Basic earnings per share amounted to 26.79 HK cents
- Final dividend of 20.17 HK cents per ordinary share

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

MANAGEMENT REVIEW

PCCW recorded a steady performance for the year ended December 31, 2016 amidst weak economic conditions and intensified competition across all core businesses.

Core revenue for the year ended December 31, 2016 decreased slightly by 2% to HK$38,210 million primarily due to a slowdown in Mobile handset sales. Excluding Mobile handset sales, core revenue increased by 2%. Core EBITDA increased by 3% to HK$12,506 million reflecting the successful completion of the CSL Holdings Limited ("CSL") integration at HKT and further investments in the over-the-top ("OTT") and Free TV segments within the Media Business.

Including PCPD, consolidated revenue for the year ended December 31, 2016 decreased by 2% to HK$38,384 million while consolidated EBITDA increased by 3% to HK$12,226 million. Consolidated profit attributable to equity holders of the Company was HK$2,051 million and basic earnings per share were 26.79 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 20.17 HK cents per ordinary share for the year ended December 31, 2016.

OUTLOOK

In 2017, PCCW will continue to reinforce the leadership position of its core businesses of telecommunications, media and IT solutions in Hong Kong. HKT Limited ("HKT") will focus on building upon the strength of its network and service offerings locally, while the Media and IT Solutions Businesses plan to forge a strong footprint in the region.

As a trusted partner for its customers, PCCW Solutions has fortified its track record of delivering consistent revenue growth and industry leading margins. PCCW Solutions aims to grow with its customers by assisting them to become digital enterprises. It is well positioned to act as a gateway for customers to expand their presence in mainland China and for mainland enterprises to expand globally. In addition, PCCW Solutions will continue to enrich its cloud capabilities, expand its data centre infrastructure, and offer solutions tailor-made for its key industry sectors.

The Now TV Business will solidify its leading position in Hong Kong by enriching its content offering and user interface, integrating seamlessly with HKT's superior network to offer the most compelling and reliable media viewing experience in Hong Kong.

The growing OTT Business aims to further raise customer awareness and engagement, broaden its library of locally relevant content and expand into selected new markets to capture opportunities arising from the changing viewing habits of customers.

The Free TV Business has been well received by viewers and advertisers as a fresh alternative. We will continue to invest in the production of appealing programs and make the content available on multiple delivery platforms. However, we remain cautious towards this competitive market particularly with the imminent entry of a new player.

The outlook for 2017 is overshadowed by global events, execution of the Brexit mechanism, and the change of the United States leadership. Within Hong Kong, we have yet to see a strong return of consumer and business confidence.

In 2016, management successfully implemented a number of initiatives in Hong Kong and in the region, planting seeds for the Group's future growth and development. In 2017, we will continue to identify suitable opportunities and monitor the external environment carefully to deliver value to shareholders. Given the dynamic environment, we will invest prudently.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2015 H1	2015 H2	2015 Full Year	2016 H1	2016 H2	2016 Full Year	Better/ (Worse) y-o-y
Revenue							
HKT	15,974	18,755	**34,729**	16,388	17,459	**33,847**	(3)%
Now TV Business	1,425	1,513	**2,938**	1,391	1,509	**2,900**	(1)%
OTT Business	165	267	**432**	271	312	**583**	35%
Free TV Business	–	–	–	52	108	**160**	n/a
Solutions Business	1,500	2,094	**3,594**	1,587	2,235	**3,822**	6%
Other Businesses	25	34	**59**	30	30	**60**	2%
Eliminations	(1,106)	(1,497)	**(2,603)**	(1,310)	(1,852)	**(3,162)**	(21)%
Core revenue	17,983	21,166	**39,149**	18,409	19,801	**38,210**	(2)%
PCPD	99	66	**165**	115	59	**174**	5%
Consolidated revenue	18,082	21,232	**39,314**	18,524	19,860	**38,384**	(2)%
Cost of sales	(8,027)	(10,938)	**(18,965)**	(8,494)	(9,249)	**(17,743)**	6%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(4,372)	(4,099)	**(8,471)**	(4,421)	(3,994)	**(8,415)**	1%
EBITDA[1]							
HKT	5,770	6,330	**12,100**	5,865	6,819	**12,684**	5%
Now TV Business	207	284	**491**	184	229	**413**	(16)%
OTT Business	(17)	(41)	**(58)**	(109)	(126)	**(235)**	(305)%
Free TV Business	(8)	(32)	**(40)**	(68)	(115)	**(183)**	(358)%
Solutions Business	246	442	**688**	254	507	**761**	11%
Other Businesses	(324)	(386)	**(710)**	(304)	(408)	**(712)**	0%
Eliminations	(90)	(242)	**(332)**	(92)	(130)	**(222)**	33%
Core EBITDA[1]	5,784	6,355	**12,139**	5,730	6,776	**12,506**	3%
PCPD	(101)	(160)	**(261)**	(121)	(159)	**(280)**	(7)%
Consolidated EBITDA[1]	5,683	6,195	**11,878**	5,609	6,617	**12,226**	3%
Core EBITDA[1] Margin	*32%*	*30%*	***31%***	*31%*	*34%*	***33%***	
Consolidated EBITDA[1] Margin	*31%*	*29%*	***30%***	*30%*	*33%*	***32%***	
Depreciation and amortization	(2,930)	(3,130)	**(6,060)**	(3,208)	(3,494)	**(6,702)**	(11)%
Gain/(Loss) on disposal of property, plant and equipment and intangible assets, net	4	(7)	**(3)**	2	1	**3**	n/a
Other gains/(losses), net	60	75	**135**	(53)	85	**32**	(76)%
Interest income	35	52	**87**	27	25	**52**	(40)%
Finance costs	(764)	(870)	**(1,634)**	(627)	(802)	**(1,429)**	13%
Share of results of associates and joint ventures	13	24	**37**	19	26	**45**	22%
Profit before income tax	2,101	2,339	**4,440**	1,769	2,458	**4,227**	(5)%

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

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

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

HKT

For the year ended December 31, HK$ million	2015 H1	2015 H2	2015 Full Year	2016 H1	2016 H2	2016 Full Year	Better/ (Worse) y-o-y
HKT Revenue	15,974	18,755	**34,729**	16,388	17,459	**33,847**	(3)%
HKT EBITDA[1]	5,770	6,330	**12,100**	5,865	6,819	**12,684**	5%
HKT EBITDA[1] margin	*36%*	*34%*	***35%***	*36%*	*39%*	***37%***	
HKT Adjusted Funds Flow	1,953	2,140	**4,093**	2,051	2,632	**4,683**	14%

HKT delivered a solid set of financial results for the year ended December 31, 2016, in the midst of an increasingly challenging macroeconomic environment and intensified market competition. This performance demonstrates the resilience of all of HKT's core businesses and reflects the strong execution across its operations during the year.

Total revenue for the year ended December 31, 2016 decreased by 3% to HK$33,847 million, impacted by lower revenue from Mobile handset sales due to the absence of marquee handsets throughout 2016. Excluding Mobile handset sales, underlying revenue for the year increased by 3% to HK$30,422 million.

Total EBITDA for the year was HK$12,684 million, an increase of 5% over the previous year. Adjusted funds flow for the year ended December 31, 2016 amounted to HK$4,683 million, an increase of 14% over the previous year.

HKT recommended the payment of a final distribution of 34.76 HK cents per share stapled unit for the year ended December 31, 2016. This brings the 2016 full-year distribution to 61.85 HK cents per share stapled unit, representing the complete payout of the annual adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2016 annual results announcement released on January 13, 2017.

Now TV Business

For the year ended December 31, HK$ million	**2015**			**2016**			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
Now TV Business Revenue	1,425	1,513	**2,938**	1,391	1,509	**2,900**	(1)%
Now TV Business EBITDA[1]	207	284	**491**	184	229	**413**	(16)%
Now TV *Business EBITDA[1] margin*	*15%*	*19%*	***17%***	*13%*	*15%*	***14%***	

The Now TV Business continues to face increasing industry competition and evolving consumer viewing habits. Despite these challenges, Now TV's total installed subscriber base at the end of 2016 was relatively steady at 1,303,000 reflecting our effective retention offers in response to the intense competition. Inevitably, our renewal efforts led to a softening in the exit average revenue per user ("ARPU") at the end of December 2016 to HK$192. Consequently, Now TV's subscription revenue softened slightly during 2016. Advertising revenue on the Now TV platform was also lower reflecting the overall lackluster economic environment and weak spending sentiment in Hong Kong as well as the anticipated diversion of advertising spending to the Free TV Business.

As a result, revenue for the Now TV Business for the year declined slightly by 1% to HK$2,900 million from HK$2,938 million a year earlier.

EBITDA for the year fell to HK$413 million compared to HK$491 million a year ago, primarily due to higher content costs bid up by irrational competition and higher publicity and marketing spending to attract and retain our customers. The corresponding EBITDA margin was 14% compared to 17% a year ago.

Now TV will continue to reinforce its market leadership position by offering viewers a wide range of high quality content and a reliable viewing experience delivered across its multiple platforms.

OTT Business

For the year ended December 31, HK$ million	2015			2016			Better/ (Worse)
	H1	**H2**	**Full Year**	**H1**	**H2**	**Full Year**	y-o-y
OTT Business Revenue	165	267	**432**	271	312	**583**	35%
OTT Business EBITDA[1]	(17)	(41)	**(58)**	(109)	(126)	**(235)**	(305)%

The OTT Business primarily comprises our OTT video and music services. Revenue from the OTT Business grew by 35% to HK$583 million from HK$432 million a year ago reflecting the full 12-month contribution and swift expansion of the OTT video service across the Asian region.

Our OTT video service expanded to 6 new markets in 2016 and is now available in a total of 18 markets, with a paying subscriber base exceeding 10 million as at the end of December 2016. In particular, our freemium service, which focuses on longer form content, is now available in Hong Kong, Singapore, Malaysia, Indonesia, India and most recently in the Philippines. Over a relatively short period of time, users of our freemium service have already demonstrated healthy engagement. They consume, on average, more than 12 videos per week, 1.2 – 1.6 hours of content per day and have amassed 386 million cumulative video views.

Building upon its base in Hong Kong, the MOOV music service was recently introduced in Vietnam as the first step in expanding the platform regionally.

To support the expansion of the OTT Business in 2016, startup investments were made in marketing, content and new market launches, resulting in an EBITDA cost of HK$235 million.

We plan to continue the regional expansion of the OTT video service into select new markets as well as strengthen our content library and brand recognition.

Free TV Business

For the year ended December 31, HK$ million	2015			2016			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Free TV Business Revenue	–	–	**–**	52	108	**160**	n/a
Free TV Business EBITDA[1]	(8)	(32)	**(40)**	(68)	(115)	**(183)**	(358)%

The Free TV Business recorded advertising revenue of HK$160 million, which represented 9 months of operations since its launch in April 2016. An EBITDA cost of HK$183 million was recorded as a result of startup investments in branding, content and personnel.

ViuTV has successfully developed a following of its refreshing original format factual entertainment programs. Going forward, ViuTV will enrich its content lineup with more dramas and music programs to improve the engagement with viewers and broaden our base. As part of our free TV licence obligations, the English-language service, ViuTVsix, will be launched as Channel 96 on March 31, 2017, providing news and public affairs programs, variety shows, infotainment, classic and latest dramas.

Operating in an environment with an entrenched incumbent player as well as the prospect of further new entrants, the Free TV Business will invest prudently to offer relevant and appealing content to viewers and a fresh choice for advertisers.

Solutions Business

For the year ended December 31, HK$ million	2015 H1	2015 H2	2015 Full Year	2016 H1	2016 H2	2016 Full Year	Better/ (Worse) y-o-y
Solutions Business Revenue	1,500	2,094	**3,594**	1,587	2,235	**3,822**	6%
Solutions Business EBITDA[1]	246	442	**688**	254	507	**761**	11%
Solutions Business EBITDA[1] margin	*16%*	*21%*	***19%***	*16%*	*23%*	***20%***	

Revenue of the Solutions Business for the year ended December 31, 2016 increased by 6% to HK$3,822 million from HK$3,594 million a year ago, principally due to the successful execution of various Enterprise Resource Planning ("ERP") implementation projects and major technical services projects for public sector customers in Hong Kong.

Revenue with a recurring nature accounted for 55% of the total revenue, increasing from 53% a year ago. Project based revenue represented the remaining 45% of the total revenue for the year.

Revenue generated from Cloud Solutions & Infrastructure, Technical Services and Application Development & Maintenance services all recorded solid growth driven by increasing adoption by enterprise customers of cloud computing and continuing upgrade of IT systems to improve revenue productivity and cost efficiencies. As a result, revenue breakdown by service line for the year ended December 31, 2016 was: Enterprise Applications 28%, Cloud Solutions & Infrastructure 28%, Technical Services 23%, Application Development & Maintenance 16% and Business Process Outsourcing 5%.

The Solutions Business also exhibited strong growth in the Telecommunications, Travel & Hospitality and Retail & Manufacturing sectors, demonstrating our success in delivering industry specific solutions to customers. As a result, revenue by client industry for the year ended December 31, 2016 was: Telecommunications 35%, Public Sector 32%, Travel & Hospitality 10%, Hi-Tech & Media 8%, Retail & Manufacturing 7%, Banking/Finance Services & Insurance 5%, and other industries 3%.

EBITDA for the year increased by 11% to HK$761 million from HK$688 million a year ago, with the margin improving to 20%, driven by improved staff utilization in Hong Kong and mainland China and an increase in infrastructure demand.

As at December 31, 2016, the Solutions Business had secured orders with a combined value of HK$6,583 million, 22% higher than a year ago. This improvement in secured orders was primarily the result of long term contracts signed with customers in the public sector in Hong Kong and to provide Cloud Solutions & Infrastructure services for customers in mainland China.

PCPD

PCPD recorded total revenue of HK$174 million and a negative EBITDA of HK$280 million for the year ended December 31, 2016. In 2015, PCPD's total revenue was HK$165 million and negative EBITDA was HK$261 million.

Pacific Century Place Jakarta, PCPD's Premium Grade A office building in Jakarta, Indonesia, was topped out on July 31, 2016 with completion expected in the second quarter of 2017. In addition to Citibank Indonesia, Sotheby's Hong Kong Limited and FWD, the NorthStar Group has agreed to relocate its office to the building. To date, approximately 20% of the office floor space has been secured by tenants.

The project in Japan is proceeding as scheduled with the residential portion anticipated for pre-sale in the first quarter of 2017 and the hotel to be unveiled in late 2019. The project in Thailand is continuing as planned with early discussions with a local developer having commenced regarding the first phase of the project.

For a more detailed review of the performance of PCPD, please refer to its 2016 annual results announcement released on January 16, 2017.

Other Businesses

Other Businesses primarily comprises corporate support functions and the wireless broadband business in the United Kingdom under the brand name, Relish, which currently operates in the Central London region. Revenue from Other Businesses was HK$60 million for the year ended December 31, 2016 (2015: HK$59 million) driven by the progress in Relish's business, while the cost of the Group's Other Businesses was HK$712 million in 2016 (2015: HK$710 million).

Eliminations

Eliminations for the year ended December 31, 2016 were HK$3,162 million (2015: HK$2,603 million). The increase reflected the growing collaboration amongst various business segments of the Group to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers.

Costs

Cost of Sales

For the year ended December 31, HK$ million	2015 H1	2015 H2	2015 Full Year	2016 H1	2016 H2	2016 Full Year	Better/ (Worse) y-o-y
HKT	6,544	8,995	**15,539**	6,973	7,472	**14,445**	7%
The Group (excluding PCPD)	8,003	10,908	**18,911**	8,457	9,230	**17,687**	6%
Consolidated	8,027	10,938	**18,965**	8,494	9,249	**17,743**	6%

HKT's cost of sales for the year ended December 31, 2016 decreased by 7% to HK$14,445 million. Gross margin was 57% in 2016, as compared to 55% a year ago primarily due to the slowdown in Mobile handset sales which have a lower gross margin.

Cost of sales for the core businesses decreased by 6%. Gross margin for the core businesses was 54% in 2016, as compared to 52% a year ago mainly driven by lower cost of sales at HKT.

The Group's consolidated total cost of sales for the year ended December 31, 2016 decreased by 6% to HK$17,743 million.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") decreased marginally by 1% to HK$8,415 million reflecting the cost synergies from the successful integration of CSL and investments made in the Media Business for the OTT and Free TV segments. As a result, operating costs to revenue ratio was stable at 22%.

Depreciation and amortization expenses increased by 11% to HK$6,702 million for the year ended December 31, 2016, from HK$6,060 million in 2015. Depreciation expenses declined by 17% due to the write-off of certain depleted network assets during the CSL integration and the review of the useful lives of new network assets that were deployed as part of the CSL integration. Amortization expenses increased by 26% mainly due to increased investments in content for the OTT and Free TV Businesses. Content related amortization for the year was HK$396 million.

General and administrative expenses, therefore, increased by 4% to HK$15,114 million for the year ended December 31, 2016.

EBITDA[1]

For the year ended December 31, 2016, core EBITDA increased by 3% to HK$12,506 million reflecting a lower cost of sales and a stable performance from all business units. The core EBITDA margin increased to 33% from 31% a year ago.

Consolidated EBITDA increased by 3% to HK$12,226 million for the year representing a margin of 32%.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2016 was HK$52 million and finance costs decreased by 13% to HK$1,429 million reflecting the savings from the refinancing of the US$500 million 5.25% guaranteed notes and the US$500 million 4.25% guaranteed notes in July 2015 and February 2016, respectively. As a result, average cost of debt was 2.7% in 2016, as compared to 2.9% a year ago and net finance costs decreased by 11% to HK$1,377 million for the year ended December 31, 2016.

Income Tax

Income tax expense for the year ended December 31, 2016 was HK$395 million, as compared to HK$447 million a year ago, representing an effective tax rate of 9% for the year. There was higher tax expense at HKT due to the increase in taxable profits in 2016 and the full utilization of the tax loss of a company resulting from the CSL integration in 2015, partly offset by the recognition of a deferred income tax asset resulting from a loss-making company turning profitable in 2016.

At PCCW there occurred in 2016 the recognition of a deferred income tax asset resulting from a loss-making company and a credit upon reassessment of certain previously recognized tax items and, in 2015, the reversal of a prior year overseas tax provision from the disposal of an overseas subsidiary.

Non-controlling Interests

Non-controlling interests were HK$1,781 million for the year ended December 31, 2016 (2015: HK$1,698 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2016 decreased by 11% to HK$2,051 million (2015: HK$2,295 million).

LIQUIDITY AND CAPITAL RESOURCES

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

In July 2016, HKT took advantage of a favorable market window post Brexit and raised US$750 million 10-year guaranteed notes at a coupon of 3.00%. The proceeds were used for general corporate purposes including the repayment of existing indebtedness. The Group's gross debt[2] was HK$46,428 million as at December 31, 2016 (December 31, 2015: HK$42,722 million) with the increase primarily attributable to the payment by HKT of HK$1,950 million in August 2016 to renew its mobile spectrum. Cash and short-term deposit totaled HK$5,210 million as at December 31, 2016 (December 31, 2015: HK$7,504 million).

As at December 31, 2016, the Group had a total of HK$38,786 million in committed bank loan facilities available for liquidity management, of which HK$13,133 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,181 million, of which HK$6,038 million remained undrawn.

The Group's gross debt[2] to total assets was 58% as at December 31, 2016 (December 31, 2015: 57%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2016, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[3]

Group capital expenditure for the year ended December 31, 2016 was HK$3,227 million (2015: HK$3,534 million), of which HKT accounted for about 89% in 2016 (2015: 86%). A significant proportion of the capital investments made by the Group for the year was attributable to the network integration for the Mobile Business and the continued capital investment for the Telecommunications Services Business at HKT. The remainder of the investments was largely for the upgrading of broadcasting equipment in the Media Business and enhancement of data centre infrastructure in the Solutions Business.

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

HEDGING

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2016, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

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

CHARGE ON ASSETS

As at December 31, 2016, certain assets of the Group with an aggregate carrying value of HK$3,373 million (2015: HK$2,242 million) and performance guarantee of approximately HK$161 million (2015: HK$161 million) in relation to the construction of the Premium Grade A office building in Jakarta, Indonesia were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2015	**2016**
Performance guarantees	2,391	**923**
Others	90	**76**
	2,481	**999**

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

HUMAN RESOURCES

The Group had over 25,000 employees as at December 31, 2016 (2015: 25,400) located in over 44 countries and cities. About 61% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 20.17 HK cents (2015: 17.04 HK cents) per ordinary share for the year ended December 31, 2016 to shareholders whose names appear on the register of members of the Company on Friday, March 24, 2017, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Friday, March 17, 2017 ("AGM"). An interim dividend of 8.16 HK cents (2015: 7.96 HK cents) per ordinary share for the six months ended June 30, 2016 was paid to shareholders of the Company in October 2016.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Friday, March 24, 2017. The Company's register of members will be closed from Thursday, March 23, 2017 to Friday, March 24, 2017 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (the "Share Registrar"), for registration no later than 4:30 p.m. on Wednesday, March 22, 2017. Subject to the approval of shareholders of the Company at the AGM, dividend warrants will be despatched to shareholders on or around Wednesday, April 19, 2017.

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

The record date for determining the entitlement of the shareholders of the Company to attend and vote at the AGM will be Tuesday, March 14, 2017. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Share Registrar for registration no later than 4:30 p.m. on Tuesday, March 14, 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2016.

CORPORATE GOVERNANCE CODE

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

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended December 31, 2016.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2016 annual report will be despatched to shareholders of the Company and available on the above websites in due course.

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

Hong Kong, January 16, 2017

AUDITED CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2016

In HK$ million (except for earnings per share)	Note(s)	2015	**2016**
Revenue	2	39,314	**38,384**
Cost of sales		(18,965)	**(17,743)**
General and administrative expenses		(14,534)	**(15,114)**
Other gains, net	3	135	**32**
Interest income		87	**52**
Finance costs		(1,634)	**(1,429)**
Share of results of associates		52	**66**
Share of results of joint ventures		(15)	**(21)**
Profit before income tax	2, 4	4,440	**4,227**
Income tax	5	(447)	**(395)**
Profit for the year		3,993	**3,832**
Attributable to:			
Equity holders of the Company		2,295	**2,051**
Non-controlling interests		1,698	**1,781**
Profit for the year		3,993	**3,832**
Earnings per share	7		
Basic		30.58 cents	**26.79 cents**
Diluted		30.54 cents	**26.76 cents**

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2016

In HK$ million	2015	**2016**
Profit for the year	3,993	**3,832**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit obligations	(18)	**(26)**
	(18)	**(26)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(402)	**(165)**
Available-for-sale financial assets:		
- changes in fair value	(10)	**(7)**
- transfer to consolidated income statement on disposal/ impairment	(1)	**14**
Cash flow hedges:		
- effective portion of changes in fair value	(309)	**787**
- transfer from equity to consolidated income statement	(67)	**47**
	(789)	**676**
Other comprehensive (loss)/income for the year	(807)	**650**
Total comprehensive income for the year	3,186	**4,482**
Attributable to:		
Equity holders of the Company	1,690	**2,434**
Non-controlling interests	1,496	**2,048**
Total comprehensive income for the year	3,186	**4,482**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

In HK$ million				(Additional information)	
		The Group		The Company	
	Note*	2015	**2016**	2015	**2016**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		18,713	**19,701**	–	–
Investment properties		2,084	**3,216**	–	–
Interests in leasehold land		442	**422**	–	–
Properties held for/under development		851	**924**	–	–
Goodwill		18,183	**18,095**	–	–
Intangible assets		10,526	**11,982**	–	–
Interests in subsidiaries		–	–	17,072	**17,072**
Interests in associates		618	**725**	–	–
Interests in joint ventures		485	**628**	–	–
Available-for-sale financial assets		806	**1,057**	–	–
Derivative financial instruments		–	**289**	–	**12**
Deferred income tax assets		1,066	**1,134**	–	–
Other non-current assets		845	**897**	–	–
		54,619	**59,070**	17,072	**17,084**
Current assets					
Amounts due from subsidiaries		–	–	18,862	**21,281**
Sales proceeds held in stakeholders’ accounts		513	**510**	–	–
Restricted cash		106	**139**	–	–
Prepayments, deposits and other current assets		7,106	**9,019**	36	**19**
Inventories		774	**943**	–	–
Amounts due from related companies		90	**98**	–	–
Derivative financial instruments		60	–	–	–
Trade receivables, net	8	3,969	**3,778**	–	–
Tax recoverable		17	**16**	–	–
Short-term deposits		1	**453**	–	–
Cash and cash equivalents		7,503	**4,751**	815	**587**
		20,139	**19,707**	19,713	**21,887**
Assets of disposal group classified as held for sale	10	–	**807**	–	–
		20,139	**20,514**	19,713	**21,887**

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at December 31, 2016

In HK$ million				(Additional information)	
		The Group		The Company	
	Note*	2015	**2016**	2015	**2016**
Current liabilities					
Short-term borrowings		(3,879)	**(457)**	–	**–**
Trade payables	9	(2,494)	**(2,731)**	–	**–**
Accruals and other payables		(6,763)	**(6,844)**	(12)	**(11)**
Amount payable to the Government under the Cyberport Project Agreement		(322)	**(321)**	–	**–**
Carrier licence fee liabilities		(448)	**(173)**	–	**–**
Amounts due to related companies		(69)	**(35)**	–	**–**
Advances from customers		(2,168)	**(2,160)**	–	**–**
Current income tax liabilities		(1,350)	**(1,327)**	–	**–**
		(17,493)	**(14,048)**	(12)	**(11)**
Liabilities of disposal group classified as held for sale	10	–	**(36)**	–	**–**
		(17,493)	**(14,084)**	(12)	**(11)**
Non-current liabilities					
Long-term borrowings		(38,090)	**(45,131)**	(2,690)	**(3,978)**
Amount due to subsidiaries		–	**–**	(2,987)	**(3,024)**
Derivative financial instruments		(586)	**(98)**	(143)	**(84)**
Deferred income tax liabilities		(2,775)	**(2,916)**	–	**–**
Deferred income		(1,079)	**(1,071)**	–	**–**
Defined benefit liability		(133)	**(154)**	–	**–**
Carrier licence fee liabilities		(627)	**(544)**	–	**–**
Other long-term liabilities		(633)	**(810)**	–	**–**
		(43,923)	**(50,724)**	(5,820)	**(7,086)**
Net assets		13,342	**14,776**	30,953	**31,874**
CAPITAL AND RESERVES					
Share capital	11	12,505	**12,954**	12,505	**12,954**
Reserves		(1,481)	**(928)**	18,448	**18,920**
Equity attributable to equity holders of the Company		11,024	**12,026**	30,953	**31,874**
Non-controlling interests		2,318	**2,750**	–	**–**
Total equity		13,342	**14,776**	30,953	**31,874**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2016 and 2015 is presented only as additional information to these consolidated financial statements.

NOTES

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES

(a) The accounting policies and methods of computation used in preparing the financial information extracted from the audited consolidated financial statements are consistent with those followed in preparing the annual financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2015, except for the adoption of the following new and amended Hong Kong Financial Reporting Standards, which are relevant to the Group's operation and are effective for accounting periods beginning on or after January 1, 2016. The HKFRSs include all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The following new and amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2016, but had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 1 (Amendment), Presentation of Financial Statements - Disclosure Initiative.
- HKAS 16 (Amendment), Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 16 (Amendment), Property, Plant and Equipment - Agriculture: Bearer Plants.
- HKAS 27 (2011) (Amendment), Separate Financial Statements - Equity Method in Separate Financial Statements.
- HKAS 28 (2011) (Amendment), Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception.
- HKAS 38 (Amendment), Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 41 (Amendment), Agriculture: Bearer Plants.
- HKFRS 10 (Amendment), Consolidated Financial Statements - Investment Entities: Applying the Consolidation Exception.
- HKFRS 11 (Amendment), Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations.
- HKFRS 12 (Amendment), Disclosure of Interests in Other Entities - Investment Entities: Applying the Consolidation Exception.
- HKFRS 14, Regulatory Deferral Accounts.
- Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA.

The Group has not early adopted any new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period.

The financial information relating to the years ended December 31, 2016 and 2015 included in this preliminary announcement of annual results for the year ended December 31, 2016 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended December 31, 2016 in due course.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Key accounting judgements and sources of estimation uncertainty are discussed below:

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

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following classes of asset 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;
- properties held for/under development;
- intangible assets;
- interests in associates and joint arrangements; 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 the end of any given reporting period. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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

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 assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, 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.

For the year ended December 31, 2015, provisions for impairment of interests in an associate and a joint venture of HK$95 million and HK$5 million respectively were recognized resulting in the carrying amount being written down to their respective recoverable amounts.

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.

Contract revenue 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 cost incurred will be recoverable.

The Group is required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

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 appropriate 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 queries raised by 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 queries 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.

v. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected market yield, market price, market rent and the outstanding development costs in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different market yields, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2016, the fair value of the investment properties was HK$3,216 million (2015: HK$2,084 million).

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 according to the results of the review.

2. SEGMENT INFORMATION

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

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

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

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

- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong, Macau and mainland China.

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

- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

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

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

2. SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2015
(In HK$ million)

	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
Total Revenue	34,729	3,370	3,594	59	165	(2,603)	39,314
RESULTS							
EBITDA	12,100	393	688	(710)	(261)	(332)	11,878

For the year ended December 31, 2016
(In HK$ million)

	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
Total Revenue	**33,847**	**3,643**	**3,822**	**60**	**174**	**(3,162)**	**38,384**
RESULTS							
EBITDA	**12,684**	**(5)**	**761**	**(712)**	**(280)**	**(222)**	**12,226**

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

In HK$ million	2015	**2016**
Total segment EBITDA	11,878	**12,226**
(Loss)/Gain on disposal of property, plant and equipment and intangible assets, net	(3)	**3**
Depreciation and amortization	(6,060)	**(6,702)**
Other gains, net	135	**32**
Interest income	87	**52**
Finance costs	(1,634)	**(1,429)**
Share of results of associates and joint ventures	37	**45**
Profit before income tax	4,440	**4,227**

2. SEGMENT INFORMATION (CONTINUED)

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

In HK$ million	2015	**2016**
Hong Kong (place of domicile)	32,453	**32,272**
Mainland China, Macau and Taiwan, China	1,483	**1,284**
Others	5,378	**4,828**
	39,314	**38,384**

3. OTHER GAINS, NET

In HK$ million	2015	**2016**
Gain on disposal of an associate	75	–
Gain on remeasuring an available-for-sale investment upon a step acquisition	29	–
Fair value (losses)/gains on investment properties	(4)	**2**
Net gains on cash flow hedging instruments transferred from equity	56	–
Net gains on fair value hedging instruments	48	**4**
Fair value movement of derivative financial instrument	(2)	**(60)**
Net realized gains on disposal of available-for-sale financial assets	32	**106**
Provision for impairment of an interest in an associate	(95)	–
Provision for impairment of an interest in a joint venture	(5)	–
Provision for impairment of available-for-sale financial assets	(2)	**(19)**
Others	3	**(1)**
	135	**32**

4. PROFIT BEFORE INCOME TAX

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

In HK$ million	2015	**2016**
Crediting:		
Gain on disposal of property, plant and equipment, net	–	**3**
Charging:		
Depreciation of property, plant and equipment	2,141	**1,774**
Amortization of land lease premium – interests in leasehold land	22	**20**
Amortization of intangible assets	3,897	**4,908**
Cost of inventories sold	6,359	**4,698**
Cost of sales, excluding inventories sold	12,606	**13,045**
Loss on disposal of property, plant and equipment and intangible assets, net	3	**–**
Interest on borrowings	1,439	**1,285**

5. INCOME TAX

In HK$ million	2015	**2016**
Hong Kong profits tax	491	**485**
Overseas tax	(124)	**104**
Movement of deferred income tax	80	**(194)**
	447	**395**

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

6. DIVIDENDS

In HK$ million	2015	**2016**
Interim dividend declared and paid in respect of current year of 8.16 HK cents (2015: 7.96 HK cents) per ordinary share	601	**629**
Less: dividend for shares held by share award schemes	(2)	**(1)**
	599	**628**
Final dividend declared in respect of previous financial year, approved and paid during the year of 17.04 HK cents (2015: 13.21 HK cents) per ordinary share	985	**1,299**
Less: dividend for shares held by share award schemes	(2)	**(1)**
	983	**1,298**
	1,582	**1,926**
Final dividend proposed after the end of the reporting period of 20.17 HK cents (2015: 17.04 HK cents) per ordinary share	1,299	**1,557**

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

(b) For details of shares issued in lieu of cash dividends, please refer to note 11(a).

7. EARNINGS PER SHARE

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

	2015	**2016**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	2,295	**2,051**
Number of shares		
Weighted average number of ordinary shares	7,521,736,989	**7,670,021,895**
Effect of shares held under the Company's share award schemes	(17,131,028)	**(13,204,717)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,504,605,961	**7,656,817,178**
Effect of shares awarded under the Company's share award schemes	9,571,065	**8,477,779**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,514,177,026	**7,665,294,957**

8. TRADE RECEIVABLES, NET

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

In HK$ million	2015	**2016**
1 – 30 days	2,297	**2,276**
31 – 60 days	651	**510**
61 – 90 days	256	**324**
91 – 120 days	207	**223**
Over 120 days	805	**717**
	4,216	**4,050**
Less: Impairment loss for doubtful debts	(247)	**(272)**
	3,969	**3,778**

Included in trade receivables, net were amounts due from related parties of HK$37 million (2015: HK$49 million).

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.

9. TRADE PAYABLES

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

In HK$ million	2015	**2016**
1 – 30 days	1,571	**1,664**
31 – 60 days	102	**155**
61 – 90 days	81	**86**
91 – 120 days	101	**36**
Over 120 days	639	**790**
	2,494	**2,731**

Included in trade payables were amounts due to related parties of HK$58 million (2015: HK$61 million).

10. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The assets and liabilities related to Transvision Investments Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries (collectively the "Transvision Group") have been presented as held for sale in the Group's consolidated statement of financial position as at December 31, 2016. The Transvision Group mainly comprises UK Broadband Limited, an indirect wholly-owned subsidiary engaging in the provision of wireless broadband services in the United Kingdom. The Group is actively exploring opportunities to dispose of equity interests in the Transvision Group where the completion of the sale within twelve months of classification as assets held for sale is considered highly probable.

11. SHARE CAPITAL

	Year ended December 31,			
	2015		**2016**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1,	7,453,177,661	11,720	**7,621,350,679**	**12,505**
Shares issued in lieu of cash dividends *(note (a))*	168,173,018	785	**88,287,570**	**449**
Shares issued for share award scheme *(note (b))*	–	–	**10,000,000**	**–**
As at December 31,	7,621,350,679	12,505	**7,719,638,249**	**12,954**

(a) During the year ended December 31, 2016, the Company issued and allotted 84,268,778 and 4,018,792 new fully paid shares at an average price of HK$5.096 and HK$4.952 per share respectively to the shareholders who elected to receive shares in lieu of cash for 2015 final dividend and 2016 interim dividend pursuant to the respective scrip dividend schemes.

During the year ended December 31, 2015, the Company issued and allotted 96,011,595 and 72,161,423 new fully paid shares at an average price of HK$5.088 and HK$4.096 per share respectively to the shareholders who elected to receive shares in lieu of cash for 2014 final dividend and 2015 interim dividend pursuant to the respective scrip dividend schemes.

(b) During the year ended December 31, 2016, the Company issued and allotted 10,000,000 new fully paid shares at HK$0.01 per share under general mandate for grant of awards pursuant to the share award scheme.

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

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

Non-Executive Directors
Sir David Ford, KBE, LVO; Tse Sze Wing, Edmund, GBS; Lu Yimin (Deputy Chairman); Li Fushen; Zhang Junan and Wei Zhe, David

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

Forward-Looking Statements

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