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Hutchison Telecommunications Hong Kong Holdings Limited

和記電訊香港控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 215)

AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

	2018 ⁽¹⁾ HK\$ million	2017 HK\$ million	Change
Revenue⁽²⁾	7,912	6,752	+17%
Service revenue	3,662	3,853	-5%
Hardware revenue	4,250	2,899	+47%
EBITDA⁽²⁾	1,157	1,267	-9%
Service EBITDA⁽²⁾	1,108	1,209	-8%
EBIT⁽²⁾	339	398	-15%
Profit attributable to shareholders from recurring operations	404	222	+82%
Gain on disposal of subsidiaries and other items⁽³⁾	-	4,544	-100%
Profit attributable to shareholders	404	4,766	-92%
Recurring earnings per share (in HK cents)⁽⁴⁾	8.38	4.61	+82%
Earnings per share (in HK cents)	8.38	98.90	-92%
Special interim dividend per share (in HK cents)	80.00	-	N/A
Final dividend per share (in HK cents)	3.20	4.55	-30%
Full year dividend per share (in HK cents)	86.30	8.45	+921%

Note 1: The Group had changed its accounting policies with effect from 1 January 2018 as a result of adopting IFRS 15 *Revenue from Contracts with Customers*. In previous reporting years, the incremental costs of obtaining telecommunications service contracts were recognised in the consolidated income statement when incurred. Under IFRS 15, certain incremental costs are required to be capitalised as an asset when incurred, and amortised over the enforceable contract period. Please refer to Note 2.3(b)-(c) of this announcement for further details.

Note 2: The comparative figures of these items were extracted from recurring operations.

Note 3: Gain on disposal of subsidiaries and other items in 2017 included disposal gain of the fixed-line business of HK\$5,614 million, one-off after tax and non-controlling interests accelerated depreciation charges of HK\$1,391 million for certain 2G and 3G mobile telecommunications fixed assets, and profit after taxation from discontinued operations of HK\$321 million.

Note 4: Recurring earnings per share was calculated based on the profit attributable to shareholders from recurring operations of HK\$404 million (2017: HK\$222 million) divided by the weighted average number of ordinary shares issued.

CHAIRMAN'S STATEMENT

Hutchison Telecommunications Hong Kong Holdings Limited ("the Company") and its subsidiaries (together referred to as "the Group") are pleased to announce annual results for 2018. The Group remained resilient in a challenging operating environment, delivering satisfactory performance and revenue growth, while making progress with digital transformation for efficiency enhancement. The launch of innovative local and roaming products and services, together with deployment of the latest information and online platform technologies, enhanced overall customer experience and improved operational efficiency.

Results

Group revenue amounted to HK\$7,912 million in 2018, a 17% increase compared with HK\$6,752 million in 2017. Demand for new smartphones remained strong throughout the year with handset revenue growing 47% from HK\$2,899 million in 2017 to HK\$4,250 million in 2018.

Net customer service margin remained under pressure, partially compensated by improvements in operational efficiency and stringent control over spending. EBITDA decreased by 9% to HK\$1,157 million in 2018.

EBIT decreased by 15% to HK\$339 million in 2018, primarily driven by the same EBITDA factors noted above, together with additional amortisation of capitalised incremental costs after adoption of the IFRS 15 accounting standard since 1 January 2018. The decrease was partly offset by lower depreciation expense subsequent to an accelerated depreciation exercise involving certain 2G and 3G mobile telecommunications fixed assets in 2017.

Profit attributable to shareholders was HK\$404 million, a decrease of 92% compared with HK\$4,766 million in 2017. Excluding the gain on disposal of subsidiaries and other items of HK\$4,544 million in 2017, with the additional benefits of interest income, the profit attributable to shareholders increased by 82%, while recurring earnings per share was 8.38 HK cents in 2018 (2017: 4.61 HK cents).

As of 31 December 2018, the total number of customers in Hong Kong and Macau was approximately 3.3 million (2017: approximately 3.3 million), of which 46% (2017: 45%) was postpaid customers. Monthly churn rate of postpaid customers remained stable at 1.3% in 2018 (2017: 1.3%) in a fiercely-competitive market. Blended postpaid gross ARPU decreased by 5% from HK\$230 in 2017 to HK\$219 in 2018.

Dividends

The Board resolved to declare a one-off special interim dividend of 80.00 HK cents (2017: nil) per share payable on Friday, 24 May 2019 to shareholders whose names appear on the Register of Members of the Company at close of business on Wednesday, 15 May 2019, being the record date for determining shareholders' entitlement to the special interim dividend.

Further, the Board recommended payment of a final dividend of 3.20 HK cents (2017: 4.55 HK cents) per share for the year ended 31 December 2018. The proposed final dividend will be payable on Friday, 24 May 2019, following the approval of shareholders at the Annual General Meeting of the Company, to shareholders whose names appear on the Register of Members of the Company at close of business on Wednesday, 15 May 2019, being the record date for determining shareholders' entitlement to the proposed final dividend. Combined with the interim dividend of 3.10 HK cents per share and the special interim dividend of 80.00 HK cents per share, the full year dividend amounts to 86.30 HK cents per share.

Outlook

The Group acquired spectrum resources in the 900 MHz band and 1800 MHz band in 2018 as part of continued efforts to enhance network quality and the overall customer experience. Looking ahead, the Group will continue deploying the latest technologies to further improve spectrum efficiency, while ensuring customers enjoying smooth and reliable mobile service, coinciding with the ongoing surge in demand for mobile data.

The Group's digitalisation initiatives have been designed to streamline and automate business operations, processes and competencies, and they will be progressively deployed in 2019 and remain a priority of the Group over the next few years. The Group will continue to utilise advanced digital technologies to further enhancing customer experience, while generating incremental revenues and savings in operation.

Pressure on tariff pricing persists as competition is expected to remain keen. The Group will therefore focus on broadening revenue base by opening up new digital services and IoT revenue streams. The Group will continue to collaborate with CKHH Group telecommunications operations in Europe and Asia, as well as with other top-notch telecommunications, internet and technology partners, in order to enhance its procurement capability and develop innovative roaming packages to generate sustainable returns for shareholders over the long term.

Finally, I would like to take this opportunity to thank the Board of Directors and all staff members for their dedication, professionalism and contributions.

FOK Kin Ning, Canning
Chairman

Hong Kong, 28 February 2019

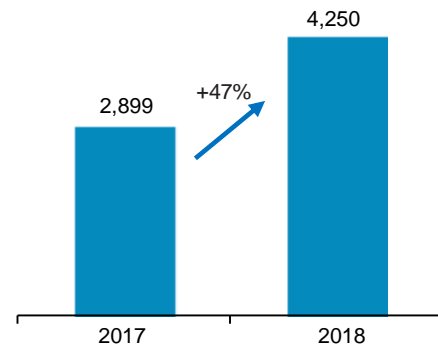
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Summary – Excluding gain on disposal of subsidiaries and other items

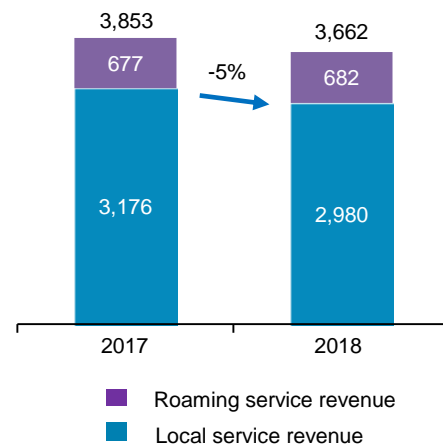
	2018 HK\$ million	2017 HK\$ million	Change
Revenue	7,912	6,752	+17%
- Net customer service revenue	3,662	3,853	-5%
- Local service revenue	2,980	3,176	-6%
- Roaming service revenue	682	677	+1%
- Hardware revenue	4,250	2,899	+47%
- Bundled sales revenue	667	750	-11%
- Standalone handset sales revenue	3,583	2,149	+67%
Net customer service margin	3,318	3,573	-7%
<i>Net customer service margin %</i>	91%	93%	-2% points
Standalone handset sales margin	49	58	-16%
CACs	(827)	(1,027)	+19%
Less: Bundled sales revenue	667	750	-11%
CACs (net of handset revenue)	(160)	(277)	+42%
Operating expenses and staff costs	(2,123)	(2,153)	+1%
<i>Operating expenses and staff costs as a % of net customer service margin</i>	64%	60%	-4% points
EBITDA	1,157	1,267	-9%
Service EBITDA	1,108	1,209	-8%
<i>Service EBITDA margin %</i>	30%	31%	-1% point
Depreciation and amortisation	(768)	(822)	+7%
EBIT	339	398	-15%
Service EBIT	290	340	-15%
CAPEX (excluding spectrum licences)	(522)	(533)	+2%
EBITDA less CAPEX	635	734	-13%

Revenue increased by 17% to HK\$7,912 million in 2018. Hardware revenue increased by 47% to HK\$4,250 million in 2018, primarily due to higher demand for new smartphones. Service revenue decreased by 5% to HK\$3,662 million in 2018, mainly the result of intense market competition in local data tariff pricing which led to a 6% decline in local service revenue. Roaming revenue improved by 1% to HK\$682 million with the launch of more innovative roaming data packages in 2018, which led to 24% increase in the roaming data revenue, substantially offset by the decrease of roaming voice revenue.

Hardware revenue (HK\$m)

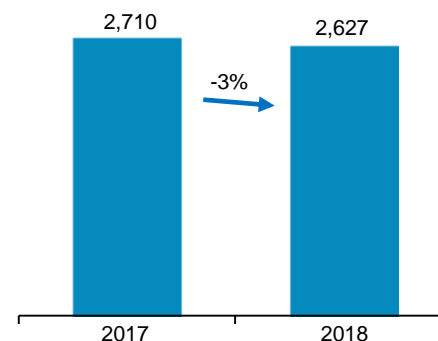


Service revenue (HK\$m)

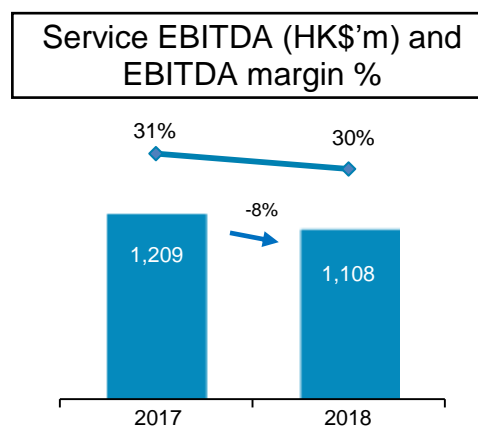


CACs, staff costs and other operating expenses decreased by 3% to HK\$2,627 million in 2018, reflecting the favourable effect on capitalisation of certain incremental costs after adoption of IFRS 15 accounting standard as well as the Group's continued focus on efficiency enhancement and stringent expenditure control, partially offset by increase in roaming and other variable costs.

Key cost items (HK\$m)



Service EBITDA decreased by 8% to HK\$1,108 million in 2018, broadly in line with the lower local service revenue which resulted from keen market competition in local data tariff packages. Service EBITDA margin was 30% in 2018, slightly decreasing by 1% from 2017.



Depreciation and amortisation excluding the one-off accelerated depreciation charge in 2017 decreased from HK\$822 million in 2017 to HK\$768 million in 2018. The change was mainly the result of decrease in depreciation charges after the accelerated depreciation exercise for certain 2G and 3G mobile telecommunications fixed assets in 2017, partially offset by additional amortisation charges of capitalised incremental costs of HK\$172 million after adoption of the IFRS 15 accounting standard.

EBIT was HK\$339 million in 2018, a 15% decrease compared with HK\$398 million reported in 2017.

Key performance indicators

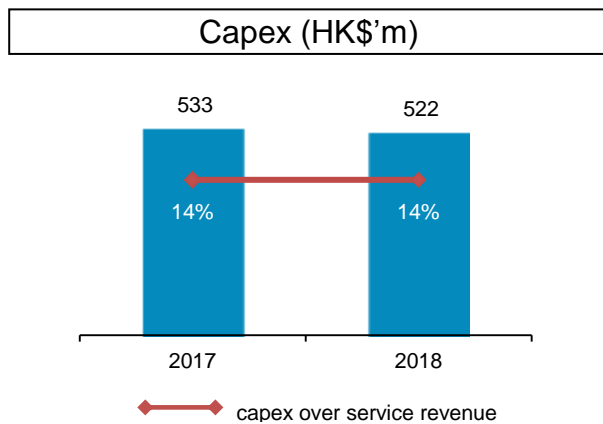
	2018	2017	Change
Number of postpaid customers ('000)	1,499	1,487	+1%
Number of prepaid customers ('000)	1,777	1,841	-3%
Total customers ('000)	3,276	3,328	-2%
Postpaid customers to the total customer base (%)	46%	45%	+1% point
Postpaid customers' contribution to the net customer service revenue (%)	90%	90%	-
Monthly churn rate of postpaid customers (%)	1.3%	1.3%	-
Postpaid gross ARPU (HK\$)	219	230	-5%
Postpaid net ARPU (HK\$)	186	197	-6%
Postpaid net AMPU (HK\$)	169	181	-7%

As of 31 December 2018, the total number of customers in Hong Kong and Macau was approximately 3.3 million (2017: approximately 3.3 million), of which 46% (2017: 45%) was postpaid customers. Monthly churn rate of postpaid customers remained stable at 1.3% in 2018 (2017: 1.3%) in a fiercely-competitive market. Blended postpaid gross ARPU decreased by 5% from HK\$230 in 2017 to HK\$219 in 2018.

Net interest and other finance income

Net interest and other finance income amounted to HK\$193 million in 2018 compared with expense of HK\$60 million in 2017. The increase in net interest and other finance income was mainly the result of interest income generated from the cash proceeds subsequent to disposal of the fixed-line business together with savings from interest and other finance costs after repayment of bank borrowings in early 2018. As of 31 December 2018, the Group recorded a net cash position of HK\$9,555 million (2017: HK\$9,817 million), after settlement of transaction costs of the disposal of the fixed-line business and final dividend related to fixed-line contribution in 2017.

Capital expenditure



Summary of spectrum investment as of 31 December 2018		
Spectrum band	Bandwidth	Year of expiry
Hong Kong		
900 MHz	10 MHz	2026
900 MHz	16.6 MHz	2021 #
1800 MHz	23.2 MHz	2021 #
2100 MHz	29.6 MHz	2031
2300 MHz	30 MHz	2027
2600 MHz	30 MHz *	2024
2600 MHz	10 MHz *	2028
Macau		
900 MHz	15.6 MHz	2023
1800 MHz	28.8 MHz	2023
2100 MHz	10 MHz	2023

* Shared under 50/50 joint venture - Genius Brand Limited

After the spectrum auction and licence renewal in 2018, the existing 16.6 MHz in 900 MHz band has been extended from November 2020 to January 2021 to align with the new spectrum assignment period. Accordingly, the Group will hold 10 MHz in 900 MHz band and 30 MHz in 1800 MHz band from 2021 to 2036.

Capital expenditure on property, plant and equipment in 2018 amounted to HK\$522 million (2017: HK\$533 million), focusing on digital transformation project and the long-term investment in quality enhancement and capacity expansion on our advanced 4.5G mobile network. Capital expenditure in 2018 accounted for 14% (2017: 14%) of service revenue.

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 HK\$ millions	2017 HK\$ millions
Continuing operations			
Revenue	4	7,912	6,752
Cost of inventories sold		(4,201)	(2,841)
Staff costs		(374)	(482)
Expensed customer acquisition and retention costs		(160)	(277)
Depreciation and amortisation		(768)	(3,004)
Other operating expenses	6	(2,093)	(1,951)
		<u>316</u>	<u>(1,803)</u>
Interest and other finance income	7	214	59
Interest and other finance costs	7	(21)	(119)
Share of result of a joint venture		(4)	(6)
		<u>505</u>	<u>(1,869)</u>
Profit/(loss) before taxation			
Taxation	8	(72)	288
		<u>433</u>	<u>(1,581)</u>
Discontinued operations			
Profit for the year from discontinued operations	9	-	5,935
		<u>433</u>	<u>4,354</u>
Profit for the year			
		<u>433</u>	<u>4,354</u>
Attributable to:			
Shareholders of the Company		404	4,766
Non-controlling interests		29	(412)
		<u>433</u>	<u>4,354</u>
Profit/(loss) attributable to shareholders of the Company arises from:			
Continuing operations		404	(1,169)
Discontinued operations		-	5,935
		<u>404</u>	<u>4,766</u>
Earnings per share attributable to shareholders of the Company (expressed in HK cents per share):			
- Basic earnings/(losses) per share arises from			
Continuing operations	10	8.38	(24.26)
Discontinued operations		-	123.16
		<u>8.38</u>	<u>98.90</u>
- Diluted earnings/(losses) per share arises from			
Continuing operations	10	8.38	(24.26)
Discontinued operations		-	123.16
		<u>8.38</u>	<u>98.90</u>

Details of interim dividend paid, special interim dividend and proposed final dividend payable to shareholders of the Company are set out in Note 11.

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 HK\$ millions	2017 HK\$ millions
Profit for the year	433	4,354
Other comprehensive income		
Item that will not be reclassified subsequently to income statement in subsequent periods:		
- Remeasurements of defined benefit plans	2	106
Items that may be reclassified subsequently to income statement in subsequent periods:		
- Currency translation differences	(2)	4
- Cumulative translation adjustments released upon disposal of subsidiaries	-	11
	<u>433</u>	<u>4,475</u>
Total comprehensive income for the year, net of tax	<u><u>433</u></u>	<u><u>4,475</u></u>
Total comprehensive income/(loss) attributable to:		
Shareholders of the Company	404	4,886
Non-controlling interests	29	(411)
	<u>433</u>	<u>4,475</u>
	<u><u>433</u></u>	<u><u>4,475</u></u>
Total comprehensive income/(loss) attributable to shareholders of the Company arises from:		
Continuing operations	404	(1,064)
Discontinued operations	-	5,950
	<u>404</u>	<u>4,886</u>
	<u><u>404</u></u>	<u><u>4,886</u></u>

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Note	2018 HK\$ millions	2017 HK\$ millions
ASSETS			
Non-current assets			
Property, plant and equipment		2,194	2,017
Goodwill		2,155	2,155
Telecommunications licences		2,289	2,542
Customer acquisition and retention costs		132	-
Contract assets		130	-
Other non-current assets		300	214
Deferred tax assets		258	338
Investments in joint ventures		396	434
Total non-current assets		<u>7,854</u>	<u>7,700</u>
Current assets			
Cash and cash equivalents	12	9,555	13,717
Trade receivables and other current assets	13	546	950
Contract assets		276	-
Inventories		107	125
Total current assets		<u>10,484</u>	<u>14,792</u>
Current liabilities			
Borrowings		-	3,900
Trade and other payables	14	1,755	2,304
Contract liabilities		132	-
Current income tax liabilities		16	3
Total current liabilities		<u>1,903</u>	<u>6,207</u>
Non-current liabilities			
Licence fees liabilities and other non-current liabilities		288	330
Total non-current liabilities		<u>288</u>	<u>330</u>
Net assets		<u>16,147</u>	<u>15,955</u>
CAPITAL AND RESERVES			
Share capital		1,205	1,205
Reserves		14,771	14,639
Total shareholders' funds		<u>15,976</u>	<u>15,844</u>
Non-controlling interests		171	111
Total equity		<u>16,147</u>	<u>15,955</u>

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to shareholders of the Company							Non-controlling interests HK\$ millions	Total equity HK\$ millions
	Share capital HK\$ millions	Share premium HK\$ millions	Retained earnings HK\$ millions	Cumulative translation adjustments HK\$ millions	Pension reserve HK\$ millions	Other reserves HK\$ millions	Total HK\$ millions		
At 31 December 2017, previously reported	1,205	11,185	3,310	2	138	4	15,844	111	15,955
Changes in accounting policies (Note 2.3(c))	-	-	96	-	-	-	96	31	127
At 1 January 2018	1,205	11,185	3,406	2	138	4	15,940	142	16,082
Profit for the year	-	-	404	-	-	-	404	29	433
Other comprehensive income									
Remeasurements of defined benefit plans	-	-	-	-	2	-	2	-	2
Currency translation differences	-	-	-	(2)	-	-	(2)	-	(2)
Total comprehensive income, net of tax	-	-	404	(2)	2	-	404	29	433
Dividend paid (Note 11)	-	-	(368)	-	-	-	(368)	-	(368)
At 31 December 2018	1,205	11,185	3,442	-	140	4	15,976	171	16,147

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to shareholders of the Company							Non-controlling interests HK\$ millions	Total equity HK\$ millions
	Share capital HK\$ millions	Share premium HK\$ millions	Retained earnings/ (accumulated losses) HK\$ millions	Cumulative translation adjustments HK\$ millions	Pension reserve HK\$ millions	Other reserves HK\$ millions	Total HK\$ millions		
At 1 January 2017	1,205	11,185	(886)	(13)	28	(41)	11,478	583	12,061
Profit for the year	-	-	4,766	-	-	-	4,766	(412)	4,354
Other comprehensive income									
Remeasurements of defined benefit plans	-	-	-	-	105	-	105	1	106
Currency translation differences	-	-	-	4	-	-	4	-	4
Cumulative translation adjustments released upon disposal of subsidiaries (Note 9(c))	-	-	-	11	-	-	11	-	11
Total comprehensive income, net of tax	-	-	4,766	15	105	-	4,886	(411)	4,475
Disposal of subsidiaries	-	-	(50)	-	5	45	-	-	-
Dividend paid	-	-	(520)	-	-	-	(520)	(61)	(581)
At 31 December 2017	<u>1,205</u>	<u>11,185</u>	<u>3,310</u>	<u>2</u>	<u>138</u>	<u>4</u>	<u>15,844</u>	<u>111</u>	<u>15,955</u>

HUTCHISON TELECOMMUNICATIONS HONG KONG HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 HK\$ millions	2017 HK\$ millions
Cash flows from operating activities			
Cash generated from operations		530	2,076
Interest and other finance costs paid		(10)	(128)
Tax paid		(3)	(5)
		<u>517</u>	<u>1,943</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchases of property, plant and equipment		(513)	(1,013)
Additions to other non-current assets		-	(9)
Proceeds from disposals of property, plant and equipment		1	2
Interest received		173	1
Loan to a joint venture		(72)	(84)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	9(c)	-	14,244
		<u>(411)</u>	<u>13,141</u>
Net cash (used in)/generated from investing activities			
Cash flows from financing activities			
Proceeds from borrowings		-	800
Repayment of borrowings		(3,900)	(1,400)
Repayment of loan from a fellow subsidiary		-	(543)
Dividend paid to the shareholders of the Company	11	(368)	(520)
Dividend paid to non-controlling interests		-	(61)
		<u>(4,268)</u>	<u>(1,724)</u>
Net cash used in financing activities			
(Decrease)/increase in cash and cash equivalents		(4,162)	13,360
Cash and cash equivalents at 1 January		13,717	357
		<u>9,555</u>	<u>13,717</u>
Cash and cash equivalents at 31 December		<u>9,555</u>	<u>13,717</u>

NOTES

1 General Information

Hutchison Telecommunications Hong Kong Holdings Limited was incorporated in the Cayman Islands on 3 August 2007 as a company with limited liability. Its registered office address is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Group is engaged in mobile business in Hong Kong and Macau after the disposal of its fixed-line business in October 2017. The shares of the Company are listed on the Main Board of the Stock Exchange.

The consolidated financial statements of the Group are presented in Hong Kong dollars, unless otherwise stated. These financial statements were approved for issuance by the Board on 28 February 2019.

2 Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRS as issued by the International Accounting Standards Board. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The consolidated financial statements have been prepared under the historical cost convention and on a going concern basis. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

On 3 October 2017, the Group completed its disposal of the entire interests in subsidiaries which operate the fixed-line business to Asia Cube Global Communications Limited, a company wholly-owned by a fund managed by I Squared Capital. Since then, the Group is principally engaged in the mobile business in Hong Kong and Macau. The accompanying consolidated financial statements and the comparative figures have been prepared to reflect the results of the discontinued operations separately.

2 Significant Accounting Policies (Continued)

2.2 New/revised standards, amendments to existing standards and interpretations adopted by the Group

During the year, the Group has adopted the following new/revised standards, amendments to existing standards and interpretations which are relevant to the Group's operations and are effective for accounting periods beginning on 1 January 2018:

IFRSs (Amendments)	Annual Improvements 2014 - 2016 Cycle in relation to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Save as disclosed in Note 2.3, the adoption of other new/revised standards, amendments to existing standards and interpretations does not have a material impact to the Group's results of operations and financial position.

2.3 Change in accounting policies

This note describes the new accounting policies that have been applied by the Group from 1 January 2018 and explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the consolidated financial statements.

(a) IFRS 9 *Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

From 1 January 2018, the Group has adopted IFRS 9 retrospectively without restating comparative information.

The financial assets which were classified as loans and receivables before 1 January 2018 were reclassified as debt instruments measured under amortised cost.

The adoption of IFRS 9 does not have a material impact to the Group, except for the methodology of impairment of financial assets.

2 Significant Accounting Policies (Continued)

2.3 Change in accounting policies (Continued)

(a) IFRS 9 *Financial Instruments* (Continued)

Accounting policies

From 1 January 2018, the Group classifies all of its financial assets as debt instruments measured at amortised cost including trade receivables, other receivables, prepayments and deposits and loan to a joint venture. The classification depends on the entity's business model for managing financial assets and the contractual terms of the cash flows. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(i) Debt instruments measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented in net basis as "provision for doubtful debts" within "other operating expenses" in the consolidated income statement.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchasing or selling the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(ii) Impairment of financial assets and contract assets

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(b) IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach for transition to the new revenue standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of IFRS 15 is the first day of the annual reporting period in which the Group first applies the requirement of IFRS 15, i.e. 1 January 2018; (iii) the Group recognises the cumulative effect of initial application of IFRS 15 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2018; and (iv) the Group elects to apply the new standard only to contracts that are not completed contracts at 1 January 2018.

Accounting policies

(i) Customer acquisition and retention costs eligible for capitalisation

The incremental costs of obtaining telecommunications service contracts are those costs that would not have been incurred if the contract had not been obtained, mainly representing commission expenses paid to internal sales personnel and external agents. These incremental costs are required to be capitalised as an asset when incurred, and amortised on a straight-line basis in the consolidated income statement over the enforceable contractual period.

Acquisition costs related to contracts with durations less than one year are expensed as incurred.

(ii) Contract assets

Contract assets relating to bundled transaction under contracts are recognised when the Group has provided the service or delivered the hardware to the customer before the customer pays consideration or before payment is due.

(iii) Contract liabilities

The Group recognises contract liabilities when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group provides a service or delivers a hardware to the customer.

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(b) IFRS 15 *Revenue from Contracts with Customers* (Continued)

Accounting policies (Continued)

(iv) Revenue recognition

The Group recognises revenue on the following bases:

Sales of services

The Group provides mobile telecommunications and other related service to customers through a variety of plans on a postpaid or prepaid basis. Revenue is recognised using an output method, either as the service entitlement units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of service to the customer. Monthly service is generally billed in advance, which results in a contract liability.

For postpaid plan, the Group enters into a fixed-term and fixed-price service contract with the customer. When monthly usage exceeds the entitlement, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognised when the customer exercises the option.

Customers are invoiced on a monthly basis and consideration is payable when invoiced. The credit period granted by the Group to customers generally ranges from 14 to 45 days, or a longer period for corporate or carrier customers based on the individual commercial terms.

Sales of hardware

The Group sells telecommunications hardware to customers. Revenue is recognised upon delivery of hardware to customers as this is when control passes to the customers and the payment is due immediately.

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(b) IFRS 15 *Revenue from Contracts with Customers* (Continued)

Accounting policies (Continued)

(iv) Revenue recognition (Continued)

Bundled transactions under contracts comprising provision of mobile telecommunications services and sale of handset

Under bundled contracts, the Group sells handset device in exchange for entering into a fixed-term and fixed-price service contract, representing the two distinct performance obligations in these typical bundled contracts.

The amount of revenue recognised for each performance obligation is determined by considering the standalone selling prices of each of the services element and handset device element provided within the bundled contracts. The payment pattern is consistent with the sales of services and hardware.

The bundled contracts generally include the sale of a handset device at subsidised prices. This results in the creation of a contract asset at the time of sale, which represents the recognition of hardware revenue in excess of amounts billed.

Financing components

The Group does not expect to have any contracts where the period between the provision of the promised services to the customers and payment by the customers exceeds one year. The financing component in the bundled contracts where the period between the delivery of the promised handset device to the customers and payment by the customers exceeds one year is not expected to be significant. Based on current facts and circumstances, the Group determined that the financing component within the bundled contracts with customers is not significant and therefore not accounted for separately.

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

- (c) Impact of adoption to the consolidated financial statements

Accounting for costs to obtain a contract

In previous reporting periods, incremental commission expenses paid to internal sales personnel and external agents in conjunction with obtaining telecommunications service contracts and bundled transactions under contracts were recognised in the consolidated income statement as incurred.

Following the adoption of IFRS 15, the incremental commission expenses of HK\$151 million were capitalised as customer acquisition and retention costs in the consolidated statement of financial position on 1 January 2018 with a corresponding reduction of deferred tax assets of HK\$24 million recognised. These resulted the net adjustments to retained earnings and non-controlling interests of HK\$96 million and HK\$31 million, respectively.

Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of contract assets relating to bundled transaction under contracts and contract liabilities relating to telecommunications service contracts in the consolidated statement of financial position on 1 January 2018 to reflect the terminology of IFRS 15.

Previously, contract balances were presented in the consolidated statement of financial position under “trade receivables and other current assets” and “trade and other payables”.

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(c) Impact of adoption to the consolidated financial statements (Continued)

The following tables illustrate the amounts by each financial statements line item affected in current year by the application of IFRS 15 as compared to IAS 18 and IAS 11 that were previously in effect before the adoption of IFRS 15:

Consolidated Income Statement	2018		
	Reported under current accounting policies HK\$ millions	Effect of IFRS 15 HK\$ millions	Balance without the adoption of IFRS 15 HK\$ millions
Revenue	7,912	-	7,912
Cost of inventories sold	(4,201)	-	(4,201)
Staff costs	(374)	(65)	(439)
Expensed customer acquisition and retention costs	(160)	(88)	(248)
Depreciation and amortisation	(768)	172	(596)
Other operating expenses	(2,093)	-	(2,093)
	<u>316</u>	<u>19</u>	<u>335</u>
Interest and other finance income	214	-	214
Interest and other finance costs	(21)	-	(21)
Share of result of a joint venture	(4)	-	(4)
	<u>505</u>	<u>19</u>	<u>524</u>
Taxation	(72)	(3)	(75)
	<u>433</u>	<u>16</u>	<u>449</u>
Profit for the year	433	16	449
	<u>433</u>	<u>16</u>	<u>449</u>
Attributable to:			
Shareholders of the Company	404	12	416
Non-controlling interests	29	4	33
	<u>433</u>	<u>16</u>	<u>449</u>

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(c) Impact of adoption to the consolidated financial statements (Continued)

Consolidated Statement of Comprehensive Income	2018		
	Reported under current accounting policies HK\$ millions	Effect of IFRS 15 HK\$ millions	Balance without the adoption of IFRS 15 HK\$ millions
Profit for the year	433	16	449
Other comprehensive income			
Item that will not be reclassified subsequently to income statement in subsequent periods:			
- Remeasurements of defined benefit plans	2	-	2
Item that may be reclassified subsequently to income statement in subsequent periods:			
- Currency translation differences	(2)	-	(2)
Total comprehensive income for the year, net of tax	<u>433</u>	<u>16</u>	<u>449</u>
Total comprehensive income attributable to:			
Shareholders of the Company	404	12	416
Non-controlling interests	29	4	33
	<u>433</u>	<u>16</u>	<u>449</u>

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(c) Impact of adoption to the consolidated financial statements (Continued)

Consolidated Statement of Financial Position	At 31 December 2018		
	Reported under current accounting policies HK\$ millions	Effect under IFRS 15 HK\$ millions	Balance without the adoption of IFRS 15 HK\$ millions
ASSETS			
Non-current assets			
Property, plant and equipment	2,194	-	2,194
Goodwill	2,155	-	2,155
Telecommunications licences	2,289	-	2,289
Customer acquisition and retention costs	132	(132)	-
Contract assets	130	(130)	-
Other non-current assets	300	-	300
Deferred tax assets	258	21	279
Investment in a joint venture	396	-	396
Total non-current assets	7,854	(241)	7,613
Current assets			
Cash and cash equivalents	9,555	-	9,555
Trade receivables and other current assets	546	406	952
Contract assets	276	(276)	-
Inventories	107	-	107
Total current assets	10,484	130	10,614
Current liabilities			
Trade and other payables	1,755	132	1,887
Contract liabilities	132	(132)	-
Current income tax liabilities	16	-	16
Total current liabilities	1,903	-	1,903
Non-current liabilities			
Licence fees liabilities and other non-current liabilities	288	-	288
Total non-current liabilities	288	-	288
Net assets	16,147	(111)	16,036
CAPITAL AND RESERVES			
Share capital	1,205	-	1,205
Reserves	14,771	(84)	14,687
Total shareholders' funds	15,976	(84)	15,892
Non-controlling interests	171	(27)	144
Total equity	16,147	(111)	16,036

2 Significant Accounting Policies (Continued)

2.3 Changes in accounting policies (Continued)

(c) Impact of adoption to the consolidated financial statements (Continued)

Consolidated Statement of Financial Position	31 December 2017	Effect under IFRS 15 HK\$ millions	1 January 2018
	As previously reported HK\$ millions		As restated HK\$ millions
ASSETS			
Non-current assets			
Property, plant and equipment	2,017	-	2,017
Goodwill	2,155	-	2,155
Telecommunications licences	2,542	-	2,542
Customer acquisition and retention costs	-	151	151
Contract assets	-	157	157
Other non-current assets	214	-	214
Deferred tax assets	338	(24)	314
Investment in a joint venture	434	-	434
Total non-current assets	7,700	284	7,984
Current assets			
Cash and cash equivalents	13,717	-	13,717
Trade receivables and other current assets	950	(337)	613
Contract assets	-	180	180
Inventories	125	-	125
Total current assets	14,792	(157)	14,635
Current liabilities			
Borrowings	3,900	-	3,900
Trade and other payables	2,304	(162)	2,142
Contract liabilities	-	162	162
Current income tax liabilities	3	-	3
Total current liabilities	6,207	-	6,207
Non-current liabilities			
Licence fees liabilities and other non-current liabilities	330	-	330
Total non-current liabilities	330	-	330
Net assets	15,955	127	16,082
CAPITAL AND RESERVES			
Share capital	1,205	-	1,205
Reserves	14,639	96	14,735
Total shareholders' funds	15,844	96	15,940
Non-controlling interests	111	31	142
Total equity	15,955	127	16,082

2 Significant Accounting Policies (Continued)

2.4 New/revised standards, amendments to existing standards and interpretations that are not yet effective and have not been early adopted by the Group

At the date of approval of these financial statements, the following new/revised standards, amendments to existing standards and interpretations have been issued but are not yet effective for the year ended 31 December 2018:

IFRSs (Amendments) ⁽ⁱ⁾	Annual Improvements 2015 - 2017 Cycle in relation to IFRS 3 <i>Business Combination</i> , IFRS 11 <i>Joint Arrangements</i> and IAS 23 <i>Borrowing Costs</i>
IAS 1 and IAS 8 (Amendments) ⁽ⁱⁱ⁾	Definition of Material
IAS 19 (Amendments) ⁽ⁱ⁾	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments) ⁽ⁱ⁾	Long-term Interests in Associates and Joint Ventures
IFRS 3 (Amendments) ⁽ⁱⁱ⁾	Definition of a Business
IFRS 9 (Amendments) ⁽ⁱ⁾	Prepayment Features with Negative Compensation
IFRS 10 and IAS 28 (Amendments) ^(iv)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 16 ⁽ⁱ⁾	Leases
IFRS 17 ⁽ⁱⁱⁱ⁾	Insurance Contracts
IFRIC 23 ⁽ⁱ⁾	Uncertainty over Income Tax Treatments

(i) Effective for annual periods beginning on or after 1 January 2019

(ii) Effective for annual periods beginning on or after 1 January 2020

(iii) Effective for annual periods beginning on or after 1 January 2021

(iv) No mandatory effective date yet determined but is available for adoption

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The new leases standard is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019. The Group will adopt this new standard from 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a single, on statement of financial position lease accounting model for lessees. It will result in almost all leases being recognised by the lessee on the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. With all other variables remain constant, the new accounting treatment will lead to a higher EBITDA and EBIT. The combination of a straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in an income statement expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year.

2 Significant Accounting Policies (Continued)

2.4 New/revised standards, amendments to existing standards and interpretations that are not yet effective and have not been early adopted by the Group (Continued)

IFRS 16 Leases (Continued)

As a lessee, the Group can either apply the standard using a full retrospective approach, or a modified retrospective approach with optional practical expedients.

In view of the costs and massive complexity involved of applying the full retrospective approach, the Group will elect the modified retrospective approach. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of IFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of IFRS 16, i.e. 1 January 2019; and (iii) the Group recognises the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

IFRS 16 will affect primarily the accounting for the Group's operating leases. The Group has quantified to what extent these changes will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows on adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the future economic conditions, including the Group's incremental borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions allowed under the modified retrospective adoption approach.

The impact on adoption of IFRS 16 will be disclosed in the first set of consolidated financial statements issued by the Group following the initial application of this new standard, i.e. in the condensed consolidated financial statements for the six months ending 30 June 2019.

The adoption of other standards, amendments and interpretations listed above in future periods is not expected to have any material impact on the Group's results of operations and financial position.

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.

Significant estimates and assumptions concerning the future may be required in selecting and applying accounting methods and policies in these financial statements. The Group bases its estimates and assumptions on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates or assumptions.

The following is a review of the more significant estimates and assumptions used in the preparation of these financial statements.

(a) Estimated useful life for telecommunications infrastructure and network equipment

The Group has substantial investments in mobile telecommunications infrastructure and network equipment. As at 31 December 2018, the carrying amount of the mobile telecommunications infrastructure and network equipment was approximately HK\$1,628 million (2017: HK\$1,374 million). Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

During the year ended 31 December 2017, estimated useful lives for certain items of mobile telecommunications infrastructure and network equipment were revised. The after tax and non-controlling interests net effect of the changes in depreciation expense in that financial year was an increase of HK\$1,391 million for certain 2G and 3G mobile telecommunications infrastructure and network equipment after the deployment of various network transformational initiatives. These items were fully depreciated as at 31 December 2017.

(b) Asset impairment

Non-financial assets

Management judgement is required in the area of asset impairment, including goodwill, property, plant and equipment and telecommunications licences, particularly in assessing whether: (i) an event has occurred that may affect asset values; (ii) the carrying value of an asset can be supported by the net present value of future cash flows from the asset using estimated cash flow projections; and (iii) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could significantly affect the Group's reported financial condition and results of operations. In performing the impairment assessment, the Group has also considered the impact of the current economic environment on the operation of the Group. The results of the impairment test undertaken as at 31 December 2018 indicated that no impairment charge was necessary.

3 Critical Accounting Estimates and Judgements (Continued)

(c) Allocation of revenue for bundled transactions with customers

The Group has bundled transactions under contracts with customers including sales of both services and hardware (for example handsets). The amount of revenue recognised for each performance obligation is determined by considering the standalone selling price at contract inception of each distinct service element and hardware element of the contract and allocating the revenue in proportion based on these standalone selling price. Significant judgement is required in assessing the standalone selling price of these elements, including observable price or estimated price based on adjusted market assessment approach. Changes in the estimated standalone selling price may cause the revenue recognised for sales of services and hardware to change individually but not the total bundled revenue from a specific customer throughout the contract term. The Group periodically re-assesses the allocation basis as a result of changes in market conditions.

(d) Deferred taxation

Management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the recognition criteria for deferred tax assets recorded in relation to cumulative tax loss carried forward. The assumptions regarding future profitability of various subsidiaries require significant judgement, and significant changes in these assumptions from period to period may have a material impact on the Group's reported financial position and results of operations. As at 31 December 2018, the Group has recognised deferred tax assets of approximately HK\$258 million (2017: HK\$338 million).

4 Revenue

Revenue comprises revenues from provision of mobile telecommunications services and other related service as well as sales of telecommunications hardware. An analysis of revenue is as follows:

	2018 HK\$ millions	2017 HK\$ millions
Mobile telecommunications and other related service	3,662	3,853
Telecommunications hardware	4,250	2,899
	<u>7,912</u>	<u>6,752</u>

(a) Disaggregation of revenue

The Group derives revenue from the provision of services and delivery of goods by timing of satisfaction of performance obligations as follows:

	2018 HK\$ millions	2017 HK\$ millions
Timing of revenue recognition:		
Over time	3,662	3,853
At a point in time	4,250	2,899
	<u>7,912</u>	<u>6,752</u>

(b) Unsatisfied mobile telecommunications service contracts

The aggregate amount of the transaction price allocated to the performance obligations arisen from fixed-price mobile telecommunications service contracts that are partially or fully unsatisfied as at 31 December 2018 was HK\$3,008 million. Management expects that the transaction price allocated to these unsatisfied contracts as of 31 December 2018 will be recognised as revenue in the following future years:

	2018 HK\$ millions	2017 ⁽ⁱ⁾ HK\$ millions
Not later than 1 year	1,883	-
After 1 year, but within 5 years	1,119	-
After 5 years	6	-
	<u>3,008</u>	<u>-</u>

(i) As permitted under the transitional provisions in IFRS 15, the unsatisfied performance obligations as of 31 December 2017 is not disclosed.

The performance obligations arisen from other mobile telecommunications service contracts are for period of one year or less or are billed based on usage incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5 Segment Information

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purpose of resource allocation and performance assessment, the Group has identified only one reporting segment, i.e. mobile telecommunications business.

6 Other Operating Expenses

	2018 HK\$ millions	2017 HK\$ millions
Cost of services provided	1,447	1,351
General administrative and distribution costs	162	131
Operating leases in respect of:		
- Buildings	457	441
- Hire of plant and machinery	1	2
Loss on disposals of property, plant and equipment	1	1
Auditor's remuneration	7	7
Provision for doubtful debts	18	18
	<u>2,093</u>	<u>1,951</u>
Total	<u>2,093</u>	<u>1,951</u>

7 Interest and Other Finance Income/(Costs), Net

	2018 HK\$ millions	2017 HK\$ millions
Interest and other finance income:		
Bank interest income	193	30
Interest income from a joint venture	21	17
Interest and other finance income from discontinued operations	-	12
	<u>214</u>	<u>59</u>
	-----	-----
Interest and other finance costs:		
Bank loans	(1)	(71)
Notional non-cash interest accretion ⁽ⁱ⁾	(11)	(13)
Guarantee and other finance fees	(9)	(39)
	<u>(21)</u>	<u>(123)</u>
Less: Amounts capitalised on qualifying assets	-	4
	<u>(21)</u>	<u>(119)</u>
	-----	-----
Interest and other finance income/(costs), net	<u>193</u>	<u>(60)</u>

(i) Notional non-cash interest accretion represents the notional adjustments to accrete the carrying amount of certain obligations recognised in the consolidated statement of financial position such as licence fees liabilities and asset retirement obligations to the present value of the estimated future cash flows expected to be required for their settlement in the future.

8 Taxation

	2018		
	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	16	46	62
Outside Hong Kong	-	10	10
	<u>16</u>	<u>56</u>	<u>72</u>
	<u><u>16</u></u>	<u><u>56</u></u>	<u><u>72</u></u>
	2017		
	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	-	(272)	(272)
Outside Hong Kong	-	(16)	(16)
	<u>-</u>	<u>(288)</u>	<u>(288)</u>
	<u><u>-</u></u>	<u><u>(288)</u></u>	<u><u>(288)</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits less available tax losses.

9 Discontinued Operations

Upon the completion of the disposal of the fixed-line business, the Group continues to be engaged in the mobile telecommunications business in Hong Kong and Macau. As the business disposed of was considered as a separate major line of business, the corresponding operations had been presented as discontinued operations.

(a) Analysis of the results of discontinued operations is as follows:

	2017 HK\$ millions
Discontinued operations	
Revenue	2,933
Staff costs	(298)
Expensed customer acquisition and retention costs	(77)
Depreciation and amortisation	(579)
Other operating expenses	(1,569)
	<hr/>
Interest and other finance costs, net	410 (18)
	<hr/>
Profit before taxation from discontinued operations	392
Taxation	(71)
	<hr/>
Profit after taxation from discontinued operations	321
Net gain on disposal of subsidiaries ^(c)	5,614
	<hr/>
Profit for the year from discontinued operations	<u>5,935</u>

(b) Analysis of the cash flows of discontinued operations is as follows:

	2017 HK\$ millions
Net cash inflow from operating activities	854
Net cash outflow from investing activities	(498)
Net cash outflow from financing activities	(332)
	<hr/>
Net cash inflow from discontinued operations	<u>24</u>

9 Discontinued Operations (Continued)

(c) Assets and liabilities disposed of are as follows:

	2017 HK\$ millions
Cash consideration	14,527

Net assets disposed of:	
Property, plant and equipment	(6,681)
Goodwill	(2,348)
Other non-current assets	(529)
Cash and cash equivalents	(283)
Trade receivables and other current assets	(1,118)
Amount due from the immediate holding company	(28)
Amounts due from fellow subsidiaries	(25)
Deferred tax liabilities	637
Loan from the immediate holding company – non-current	1,058
Other non-current liabilities	34
Trade and other payables	1,719
Current income tax liabilities	4
Loan from the immediate holding company – current	3,599
Amount due to the immediate holding company	136
Amounts due to fellow subsidiaries	18

Total net assets disposed of	(3,807)

Transfer of shareholder loan	(4,793)
Release of cumulative translation adjustments	(11)
Transaction costs	(302)

Net gain on disposal of subsidiaries	5,614
	=====

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2017 HK\$ millions
Cash consideration	14,527
Cash and cash equivalents disposed of	(283)

Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	14,244
	=====

10 Earnings per Share

	2018 HK\$ millions	2017 HK\$ millions
Profit/(loss) attributable to shareholders of the Company arises from:		
- Continuing operations	404	(1,169)
- Discontinued operations	-	5,935
	<u>404</u>	<u>4,766</u>

The calculation of basic earnings/(losses) per share is based on profit/(loss) attributable to shareholders of the Company and on the weighted average number of ordinary shares in issue during the year as follows:

	2018	2017
Weighted average number of ordinary shares in issue	<u>4,818,896,208</u>	<u>4,818,896,208</u>
Basic earnings/(losses) per share (HK cents):		
- Continuing operations	8.38	(24.26)
- Discontinued operations	-	123.16
	<u>8.38</u>	<u>98.90</u>

The diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares in issue with the weighted average number of ordinary shares deemed to be issued assuming the exercise of the share options as follows:

	2018	2017
Weighted average number of ordinary shares in issue	4,818,896,208	4,818,896,208
Adjustments on share options	131,741	125,094
	<u>4,819,027,949</u>	<u>4,819,021,302</u>
Diluted earnings/(losses) per share (HK cents):		
- Continuing operations	8.38	(24.26)
- Discontinued operations	-	123.16
	<u>8.38</u>	<u>98.90</u>

11 Dividends

	2018 HK\$ millions	2017 HK\$ millions
Interim, paid of 3.10 HK cents per share (2017: 3.90 HK cents per share)	149	188
Special interim of 80.00 HK cents per share (2017: Nil)	3,855	-
Final, proposed of 3.20 HK cents per share (2017: 4.55 HK cents per share)	154	219
	<u>4,158</u>	<u>407</u>

12 Cash and Cash Equivalents

	2018 HK\$ millions	2017 HK\$ millions
Cash at banks and in hand	262	134
Short-term bank deposits	9,293	13,583
	<u>9,555</u>	<u>13,717</u>

The effective interest rates on short-term bank deposits ranged from 0.26% to 2.05% per annum (2017: 0.04% to 0.88%).

The carrying values of cash and cash equivalents approximate their fair values.

13 Trade Receivables and Other Current Assets

	2018 HK\$ millions	2017 HK\$ millions
Trade receivables	299	620
Less: Provision for doubtful debts	(41)	(47)
	<hr/>	<hr/>
Trade receivables, net of provision ^(a)	258	573
Other receivables ^(b)	175	253
Prepayments and deposits ^(b)	113	124
	<hr/>	<hr/>
	<u>546</u>	<u>950</u>

(a) Trade receivables, net of provision

	2018 HK\$ millions	2017 HK\$ millions
The ageing analysis of trade receivables, by invoice date, net of provision for doubtful debts is as follows:		
0 - 30 days	150	480
31 - 60 days	44	35
61 - 90 days	18	10
Over 90 days	46	48
	<hr/>	<hr/>
	<u>258</u>	<u>573</u>

The carrying values of trade receivables approximate their fair values. The Group has established credit policies for customers. The average credit period granted for trade receivables ranges from 14 to 45 days, or a longer period for corporate or carrier customers based on individual commercial terms. There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

(b) Other receivables, prepayments and deposits

The carrying values of other receivables and deposits approximate their fair values. Other receivables, prepayments and deposits do not contain impaired assets. The maximum exposure to credit risk is the fair value of each class of financial assets mentioned above. The Group does not hold any collateral as security.

14 Trade and Other Payables

	2018 HK\$ millions	2017 HK\$ millions
Trade payables ^(a)	314	406
Other payables and accruals	1,250	1,537
Deferred revenue	135	305
Current portion of licence fees liabilities	56	56
	<u>1,755</u>	<u>2,304</u>

The carrying values of trade and other payables approximate their fair values.

(a) Trade payables

	2018 HK\$ millions	2017 HK\$ millions
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The ageing analysis of trade payables is as follows:

0 - 30 days	244	374
31 - 60 days	6	5
61 - 90 days	4	3
Over 90 days	60	24
	<u>314</u>	<u>406</u>

GROUP CAPITAL RESOURCES AND LIQUIDITY

Treasury Management

The Group's treasury function sets financial risk management policies in accordance with policies and procedures that are approved by the Executive Director, and which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost-efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. The Group uses interest rate and foreign currency swaps and forward contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities' exposure to interest rate and foreign exchange rate fluctuations. It is the Group's policy not to enter into derivative transactions for speculative purposes. It is also the Group's policy not to invest liquidity in financial products, including hedge funds or similar vehicles.

Cash management and funding

The Group operates a central cash management system for all of its subsidiaries. In general, financing is mainly derived from operating income to meet funding requirements of the operating subsidiaries of the Group. The Group regularly and closely monitors its overall cash position and determines when external source of finance is needed.

Foreign currency exposure

The Group runs telecommunications operations principally in Hong Kong, with transactions denominated in Hong Kong dollars. The Group is exposed to other currency movements, primarily in terms of certain trade receivables or payables and bank deposits denominated in United States dollars, Macau Patacas, Renminbi, Euros and British pounds.

Credit exposure

The Group's holdings of surplus funds with financial institutions expose the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their share price movements and credit ratings as well as setting approved counterparty credit limits that are regularly reviewed.

Capital and Net Debt

As at 31 December 2018, the Group recorded share capital of HK\$1,205 million and total equity of HK\$16,147 million.

As at 31 December 2018, the net cash of the Group was HK\$9,555 million (2017: HK\$9,817 million), 99% of which was denominated in Hong Kong dollars with remaining in various other currencies. As at 31 December 2017, the cash and cash equivalents of the Group amounted to HK\$13,717 million and the bank loan of HK\$3,900 million under loan facilities maturing in 2019 was fully prepaid in January 2018.

Charges on Group Assets

As at 31 December 2018, same as prior year, except for all of the shares of a joint venture owned by the Group which were pledged as security in favour of the joint venture partner under a cross share pledge arrangement, no material asset of the Group was under any charge.

Borrowing Facilities Available

The Group has no committed borrowing facilities as at 31 December 2018 (2017: HK\$900 million available but not drawn).

Radio Spectrum

During the year ended 31 December 2018, Hutchison Telephone Company Limited, a subsidiary of the Group, acquired 10 MHz in the 900 MHz band and 10 MHz in the 1800 MHz band for a total consideration of HK\$960 million through auction. Together with 20 MHz in the 1800 MHz band obtained by exercising a right of first refusal offered by the Communications Authority of Hong Kong with a consideration of HK\$1,080 million, the Group acquired 40 MHz in total in the 900 MHz band and 1800 MHz band for a total consideration of HK\$2,040 million through auction and licence renewal for the provision of mobile telecommunications services in Hong Kong for a period of 15 years from 2021.

Contingent Liabilities

As at 31 December 2018, the Group provided performance and other guarantees of HK\$5 million (2017: HK\$5 million).

Commitments

As at 31 December 2018, the Group had total capital commitments of property, plant and equipment amounting to HK\$396 million (2017: HK\$444 million) and telecommunications licences of HK\$2,040 million (2017: Nil).

As at 31 December 2018, the Group had total operating lease commitments for building and other assets amounting to HK\$265 million (2017: HK\$335 million).

A subsidiary of the Group acquired various blocks of spectrum bands for the provision of telecommunications services in Hong Kong, certain of which over various assignment years up to year 2021. The licence fees for these spectrum bands were charged on 5% of the network revenue or the Appropriate Fee (as defined in the Unified Carrier Licence), whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fee liabilities.

Corporate Strategy

The strategy of the Group is to deliver sustainable returns with solid financial fundamentals, so as to enhance long-term total return for shareholders. Please refer to the Chairman's Statement and Management Discussion and Analysis for discussions and analyses of the performance of the Group and the basis on which the Group generates or preserves value over the longer term and the strategy for delivering the objectives of the Group.

Past Performance and Forward-looking Statements

The performance and the results of operations of the Group contained in this announcement are historical in nature, and past performance is no guarantee for the future results of the Group. Any forward-looking statements and opinions contained in this announcement are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations presented in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this announcement; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise.

Human Resources

As at 31 December 2018, the Group employed 1,180 (2017: 1,099) full-time mobile staff members and on average 1,183 (2017: 1,291) mobile staff members during the year ended 31 December 2018. Staff costs during the year ended 31 December 2018, including directors' emoluments, totalled HK\$374 million (2017: HK\$482 million).

The Group fully recognises the importance of high-quality human resources in sustaining market leadership. Salary and benefits are kept at competitive levels, while individual performance is rewarded within the general framework of the salary, bonus and incentive system of the Group which is reviewed annually. Employees are provided with a wide range of benefits that include medical coverage, provident funds and retirement plans, long-service awards and a share option plan. The Group stresses the importance of staff development and provides training programmes on an ongoing basis. Employees are also encouraged to play an active role in community care activities.

Environmental, Social and Governance Responsibility

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. It delivers quality products and services to its customers by managing its businesses prudently, while executing management decisions with due care and attention. The Group demonstrates a strong sense of corporate social responsibility and believes such a commitment helps strengthen its relationship with the community. Operating as a sound corporate citizen through sponsorship and supporting socially-responsible projects at company level, the Group is committed to bringing positive impact to the general welfare of the community.

Review of Financial Statements

The consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company and audited by the independent auditor of the Company, PricewaterhouseCoopers. The unqualified independent auditor's report will be included in the Annual Report to shareholders.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 3 May 2019 to Wednesday, 8 May 2019, both days inclusive during which period no transfer of shares will be effected to determine shareholders' entitlement to attend and vote at the 2019 Annual General Meeting (or at any adjournment thereof). All transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Share Registrar of the Company (Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration no later than 4:30 pm on Thursday, 2 May 2019.

Record Date for Special Interim Dividend and Proposed Final Dividend

The record date for the purpose of determining shareholders' entitlement to the special interim dividend and the proposed final dividend is Wednesday, 15 May 2019. In order to qualify for the special interim dividend and the proposed final dividend payable on Friday, 24 May 2019, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Share Registrar of the Company (Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration no later than 4:30 pm on Wednesday, 15 May 2019.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Compliance with the Corporate Governance Code

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that an effective corporate governance framework is fundamental to promoting and safeguarding interests of shareholders and other stakeholders and enhancing shareholder value.

The Company had complied throughout the year ended 31 December 2018 with all code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules other than those in respect of the nomination committee. The Company has considered the merits of establishing a nomination committee as required by the Listing Rules but was of the view that it is in the best interests of the Company that the Board collectively reviews, determines and approves the structure, size and composition of the Board as well as the appointment of any new Director, as and when appropriate.

Notwithstanding the aforementioned, a nomination committee of the Company, chaired by the Chairman of the Board, comprising all Directors, was established on 1 January 2019. When the need to select, nominate or re-elect directors arises, the nomination committee of the Company will, as it considers appropriate and having regard to the expertise and skills set required for the new or replacement Director, appoint, on a case-by-case basis, members of the Board with relevant expertise to form a sub-committee (chaired by the Chairman of the Board and comprises members in compliance with the requirements under the Listing Rules for a nomination committee) to facilitate the nomination committee of the Company in the selection and nomination process.

Compliance with the Model Code for Securities Transactions by Directors

The Board has adopted its own HTHKH Securities Code regulating Directors' dealings in securities (Group and otherwise) on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. In response to specific enquiries made, all Directors confirmed that they had complied with HTHKH Securities Code in their securities transactions throughout 2018.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday, 8 May 2019. Notice of the Annual General Meeting will be published and issued to shareholders in due course.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the Board of Directors of the Company
“CACs”	expensed customer acquisition and retention costs in the income statement
“CKHH”	CK Hutchison Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1)
“CKHH Group”	CKHH and its subsidiaries
“Company” or “HTHKH”	Hutchison Telecommunications Hong Kong Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 215)
“Director(s)”	director(s) of the Company
“EBIT”	earnings before interest and other finance income, interest and other finance costs, taxation, adjusted to include the Group’s proportionate share of joint venture’s EBIT but exclude one-off accelerated depreciation charges
“EBITDA”	earnings before interest and other finance income, interest and other finance costs, taxation, depreciation and amortisation as well as after capitalisation of certain incremental costs subsequent to adoption of IFRS 15, adjusted to include the Group’s proportionate share of joint venture’s EBITDA
“fixed-line”	fixed-line telecommunications business
“gain on disposal of subsidiaries and other items”	gain on disposal of subsidiaries and other items in 2017 included disposal gain of the fixed-line business, one-off after tax and non-controlling interests accelerated depreciation charges for certain 2G and 3G mobile telecommunications fixed assets, and contributions from the discontinued operations
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HTHKH Securities Code”	Model Code for Securities Transactions by Directors
“IFRS”	International Financial Reporting Standards

DEFINITIONS (continued)

“IoT”	Internet-of-Things
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“mobile”	mobile telecommunications business
“net customer service margin”	net customer service revenue less direct variable costs (including interconnection charges and roaming costs)
“Postpaid gross ARPU”	monthly average spending per postpaid user including a customer’s contribution to mobile devices in a bundled plan
“Postpaid net AMPU”	average net margin per postpaid user; postpaid net AMPU equals postpaid net ARPU less direct variable costs (including interconnection charges and roaming costs)
“Postpaid net ARPU”	monthly average spending per postpaid user excluding revenue related to handset under the non-subsidised handset business model
“service EBITDA”	EBITDA excluding standalone handset sales margin
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Chairman and Non-executive Director:

Mr FOK Kin Ning, Canning

Co-Deputy Chairmen and Non-executive Directors:

Mr LUI Dennis Pok Man

Mr WOO Chiu Man, Cliff

Executive Director:

Mr KOO Sing Fai

Non-executive Directors:

Mr LAI Kai Ming, Dominic

(also Alternate to Mr FOK Kin Ning, Canning and Ms Edith SHIH)

Ms Edith SHIH

Mr MA Lai Chee, Gerald

(Alternate to Mr LAI Kai Ming, Dominic)

Independent Non-executive Directors:

Mr CHEONG Ying Chew, Henry

(also Alternate to

Dr WONG Yick Ming, Rosanna)

Dr LAN Hong Tsung, David

Dr WONG Yick Ming, Rosanna