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## **HKT Trust**

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

and

## **HKT Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6823)**

# **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019**

The directors of HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) and HKT Limited (the “Company” or “HKT”) are pleased to announce the unaudited consolidated results of the HKT Trust and of the Company together with the Company’s subsidiaries (collectively the “Group”) for the six months ended June 30, 2019. This condensed consolidated interim financial information has not been audited, but has been reviewed by the Audit Committee of the Trustee-Manager and of the Company and, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, by the Group’s independent auditor, PricewaterhouseCoopers.

- Total revenue excluding Mobile product sales increased by 1% to HK\$13,768 million
- Total EBITDA increased by 2% to HK\$5,733 million
- Profit attributable to holders of Share Stapled Units increased by 16% to HK\$2,162 million; basic earnings per Share Stapled Unit was 28.55 HK cents
- Adjusted funds flow increased by 3% to HK\$2,272 million; adjusted funds flow per Share Stapled Unit was 30.01 HK cents
- Interim distribution per Share Stapled Unit of 30.01 HK cents

## MANAGEMENT REVIEW

We are pleased to announce that HKT delivered another solid set of financial results for the six months ended June 30, 2019, demonstrating the underlying strength of our core businesses and our leading market position as an integrated telecommunication service provider to both consumers and business customers.

During the period, we continued to invest for business growth and drive further efficiencies across all lines of our business. Total revenue excluding Mobile product sales increased by 1% to HK\$13,768 million, underpinned by steady growth in Telecommunications Services (“TSS”) and Mobile services revenue. Revenue from Mobile product sales of HK\$1,341 million was recorded during the period, as compared to HK\$3,374 million a year earlier, reflecting the continued lengthening of the handset replacement cycle especially in view of the impending arrival of 5G handsets.

Total EBITDA for the period was HK\$5,733 million, an increase of 2% over the same period in 2018, as a result of further operating cost efficiencies. Profit attributable to holders of the share stapled units of the HKT Trust and HKT (“Share Stapled Units”) was HK\$2,162 million, an increase of 16% over the same period in 2018. Basic earnings per Share Stapled Unit was 28.55 HK cents.

Adjusted funds flow for the six months ended June 30, 2019 expanded by 3% to HK\$2,272 million, compared to the same period in 2018. Adjusted funds flow per Share Stapled Unit<sup>4</sup> correspondingly grew by 3% to 30.01 HK cents, as compared to the same period in 2018.

The board of directors of the Trustee-Manager has resolved an interim distribution of 30.01 HK cents per Share Stapled Unit for the six months ended June 30, 2019.

## OUTLOOK

Going forward, HKT will continue to seek to increase profitability and cash flow of our underlying businesses by providing increased value for customers and through improvements in operational efficiencies. At the same time, we will cautiously develop our new businesses, which from relatively small bases will in time provide additional momentum for growth.

We will stay at the forefront of the market, rolling out at opportune times innovative services and solutions to meet consumers’ needs for smart living and to address the demand of enterprises of different sizes for smarter operations. We believe the prospect of the market of larger enterprises and public organizations is particularly positive for HKT as we have a strong niche in these segments which require complex system integration and managed services skill sets.

We welcome the Government’s decision to set lower reserve prices for the mid-band 5G spectrum, which will create a more conducive environment for the industry to introducing 5G for commercial use. As Hong Kong’s leading mobile service operator, we are making preparation to roll out innovative 5G services next year when the handsets, applications and content are in place.

So far this year, Hong Kong has witnessed a significant slowdown of its economic growth and a challenging environment for businesses. The outlook of the economy is subject to a high degree of uncertainty because of events taking place internationally and locally. Against this background, we will be particularly mindful of the need to conduct our businesses prudently with a view to delivering a stable return for unitholders.

## FINANCIAL REVIEW BY SEGMENT

For the six months ended HK\$ million	Jun 30, 2018	Dec 31, 2018	Jun 30, 2019	Better/ (Worse) y-o-y
<b>Revenue</b>				
TSS	10,155	11,619	10,209	1%
Mobile	7,212	6,797	5,222	(28)%
- Mobile Services	3,838	4,414	3,881	1%
- Mobile Product Sales	3,374	2,383	1,341	(60)%
Other Businesses	77	163	103	34%
Eliminations	(422)	(414)	(425)	(1)%
<b>Total revenue</b>	<b>17,022</b>	<b>18,165</b>	<b>15,109</b>	<b>(11)%</b>
<b>Total revenue (excluding Mobile Product Sales)</b>	<b>13,648</b>	<b>15,782</b>	<b>13,768</b>	<b>1%</b>
<b>Cost of sales</b>	<b>(8,858)</b>	<b>(9,122)</b>	<b>(6,950)</b>	<b>22%</b>
<i>Gross margin</i>	<i>48%</i>	<i>50%</i>	<i>54%</i>	
<i>Gross margin (excluding Mobile Product Sales)</i>	<i>60%</i>	<i>58%</i>	<i>59%</i>	
<b>Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net</b>	<b>(2,525)</b>	<b>(2,124)</b>	<b>(2,426)</b>	<b>4%</b>
<b>EBITDA<sup>1</sup></b>				
TSS	3,762	4,442	3,828	2%
Mobile	2,170	2,789	2,206	2%
- Mobile Services	2,201	2,833	2,222	1%
- Mobile Product Sales	(31)	(44)	(16)	48%
Other Businesses	(293)	(312)	(301)	(3)%
<b>Total EBITDA<sup>1</sup></b>	<b>5,639</b>	<b>6,919</b>	<b>5,733</b>	<b>2%</b>
<i>TSS EBITDA<sup>1</sup> Margin</i>	<i>37%</i>	<i>38%</i>	<i>37%</i>	
<i>Mobile EBITDA<sup>1</sup> Margin</i>	<i>30%</i>	<i>41%</i>	<i>42%</i>	
- Mobile Services EBITDA <sup>1</sup> Margin	57%	64%	57%	
<i>Total EBITDA<sup>1</sup> Margin</i>	<i>33%</i>	<i>38%</i>	<i>38%</i>	
<i>Total EBITDA<sup>1</sup> Margin (excluding Mobile Product Sales)</i>	<i>42%</i>	<i>44%</i>	<i>42%</i>	
Depreciation and amortization	(2,701)	(2,642)	(2,371)	12%
Gain/(loss) on disposal of property, plant and equipment, net	2	(1)	1	(50)%
Other (losses)/gains, net	(2)	4	1	NA
Finance costs, net	(626)	(724)	(662)	(6)%
Share of results of associates and joint ventures	(6)	(10)	(23)	(283)%
<b>Profit before income tax</b>	<b>2,306</b>	<b>3,546</b>	<b>2,679</b>	<b>16%</b>

## ADJUSTED FUNDS FLOW<sup>3</sup>

For the six months ended HK\$ million	Jun 30, 2018	Dec 31, 2018	Jun 30, 2019	Better/ (Worse) y-o-y
<b>Total EBITDA<sup>1</sup></b>	5,639	6,919	<b>5,733</b>	<b>2%</b>
Less cash outflows in respect of capital expenditures, customer acquisition costs and licence fees <sup>2</sup> :				
Capital expenditures	(1,322)	(1,214)	(1,292)	2%
Customer acquisition costs and licence fees	(444)	(804)	(401)	10%
Fulfillment costs	(180)	(195)	(273)	(52)%
Right-of-use assets	(847)	(818)	(849)	–
<b>Adjusted funds flow<sup>3</sup> before tax paid, net finance costs paid and changes in working capital</b>	2,846	3,888	<b>2,918</b>	<b>3%</b>
Adjusted for:				
Tax payment	(174)	(524)	(185)	(6)%
Net finance costs paid	(436)	(411)	(473)	(8)%
Changes in working capital	(31)	13	12	NA
<b>Adjusted funds flow<sup>3</sup></b>	2,205	2,966	<b>2,272</b>	<b>3%</b>

## KEY OPERATING DRIVERS<sup>5</sup>

	Jun 30, 2018	Dec 31, 2018	Jun 30, 2019	Better/(Worse) y-o-y	h-o-h
Exchange lines in service ('000)	2,636	2,631	2,616	(1)%	(1)%
Business lines ('000)	1,251	1,251	1,247	–	–
Residential lines ('000)	1,385	1,380	1,369	(1)%	(1)%
Total broadband access lines ('000) (Consumer, business and wholesale)	1,606	1,615	1,615	1%	–
Retail consumer broadband access lines ('000)	1,439	1,445	1,446	–	–
Retail business broadband access lines ('000)	155	158	158	2%	–
Mobile subscribers ('000)	4,232	4,324	4,592	9%	6%
Post-paid subscribers ('000)	3,242	3,247	3,247	–	–
Prepaid subscribers ('000)	990	1,077	1,345	36%	25%
The Club members ('000)	2,527	2,729	2,845	13%	4%
Tap & Go accounts in service ('000)	1,245	1,756	2,086	68%	19%

- Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 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 Group capital expenditures represent additions to property, plant and equipment, and interests in leasehold land. Fulfillment costs and right-of-use assets are considered as part of customer acquisition costs and capital expenditures, respectively, for the purpose of adjusted funds flow calculation.*
- Note 3 Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. The Group's adjusted funds flow is computed in accordance with the above definition using financial information derived from the Group's unaudited condensed consolidated interim financial information. The adjusted funds flow may be used for debt repayment.*
- Note 4 Adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the period by the number of Share Stapled Units in issue as at June 30, 2019.*
- Note 5 Figures are stated as at the period end.*
- Note 6 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*

## Telecommunications Services

For the six months ended HK\$ million	Jun 30, 2018	Dec 31, 2018	Jun 30, 2019	Better/ (Worse) y-o-y
<b>TSS Revenue</b>				
Local Telephony Services	1,634	1,706	1,612	(1)%
Local Data Services	3,372	4,000	3,619	7%
International Telecommunications Services	3,637	3,839	3,440	(5)%
Other Services	1,512	2,074	1,538	2%
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<b>Total TSS Revenue</b>	<b>10,155</b>	<b>11,619</b>	<b>10,209</b>	<b>1%</b>
Cost of sales	(4,839)	(5,818)	(4,864)	(1)%
Operating costs before depreciation and amortization	(1,554)	(1,359)	(1,517)	2%
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<b>Total TSS EBITDA<sup>1</sup></b>	<b>3,762</b>	<b>4,442</b>	<b>3,828</b>	<b>2%</b>
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<b>TSS EBITDA<sup>1</sup> margin</b>	<b>37%</b>	<b>38%</b>	<b>37%</b>	

TSS revenue for the six months ended June 30, 2019 increased by 1% year-on-year to HK\$10,209 million, while EBITDA increased by 2% year-on-year to HK\$3,828 million during the period, yielding a stable EBITDA margin of 37%.

*Local Telephony Services.* Local telephony services revenue was HK\$1,612 million for the six months ended June 30, 2019, as compared to HK\$1,634 million a year earlier, reflecting the gradual transition of local telephony customers to HKT's broadband and mobile products and services. Total fixed lines in service at the end of June 2019 were 2.616 million, as compared to 2.636 million a year earlier.

*Local Data Services.* Local data services revenue, comprising broadband network revenue and local data revenue, increased by 7% year-on-year to HK\$3,619 million for the six months ended June 30, 2019.

Broadband network business sustained its revenue growth, with a 5% year-on-year improvement during the first half of 2019. This consistent growth stems from our strategy of offering territory-wide fiber-to-the-home ("FTTH") service, providing multi-brand customized services through "HKT Premier", "NETVIGATOR" and "LiKE100", and cross-selling a range of service offerings and value-added solutions such as Home Wi-Fi to meet our customers' smart living needs. As a result, the total number of broadband access lines at the end of June 2019 grew by 1% to 1.615 million from 1.606 million as at the end of June 2018, with a blended churn rate of 0.8%. Of these broadband access lines, there were 801,000 FTTH access lines which represented a net increase of 58,000 or 8% growth from a year earlier. Penetration of our Home Wi-Fi solutions continued to grow during the period, reaching nearly 300,000 customers and representing around 20% of our total consumer broadband base.

HKT leverages our technology capabilities and partnerships to provide unmatched total solution offerings for enterprise customers undergoing digital transformation. As a result, the local data business continued its growth momentum, delivering an encouraging revenue growth of 12% year-on-year in the first half of 2019. We saw continued market demand for digital transformation, artificial intelligence, video analytics and cyber security solutions, especially from large enterprises and multi-national corporations as well as the public sector. The local data business also saw healthy revenue growth from the provision of cross-border connectivity solutions and network facility management solutions integrating connectivity, cloud-based applications and ancillary co-location services to enterprise customers. During the first half of 2019, we secured new contract wins with a total value of more than HK\$2 billion, which represented over 60% growth from a year earlier.

## **Telecommunications Services (Continued)**

*International Telecommunications Services.* International telecommunications services revenue for the six months ended June 30, 2019 was HK\$3,440 million, as compared to HK\$3,637 million a year earlier. The decline in revenue was mainly attributable to the compression of voice revenue as a result of a decline in the global wholesale voice business with certain international carriers. This was partly mitigated by the continued growth in demand for data connectivity services as well as the cross-selling of cloud-based services of unified communications and managed security from international carriers and enterprise customers.

*Other Services.* Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment (“CPE”), provision of technical and maintenance subcontracting services and contact centre services (“Teleservices”). Other services revenue for the six months ended June 30, 2019 increased by 2% year-on-year to HK\$1,538 million primarily due to increased sales of network equipment arising from the joint collaboration between HKT and PCCW Solutions to deliver network and infrastructure solutions to enterprise customers.

## Mobile

For the six months ended HK\$ million	Jun 30, 2018	Dec 31, 2018	Jun 30, 2019	Better/ (Worse) y-o-y
<b>Mobile Revenue</b>				
Mobile Services	3,838	4,414	<b>3,881</b>	1%
Mobile Product Sales	3,374	2,383	<b>1,341</b>	(60)%
<b>Total Mobile Revenue</b>	<u>7,212</u>	<u>6,797</u>	<u><b>5,222</b></u>	(28)%
<b>Mobile EBITDA<sup>1</sup></b>				
Mobile Services	2,201	2,833	<b>2,222</b>	1%
Mobile Product Sales	(31)	(44)	<b>(16)</b>	48%
<b>Total Mobile EBITDA<sup>1</sup></b>	<u>2,170</u>	<u>2,789</u>	<u><b>2,206</b></u>	2%
<b>Mobile EBITDA<sup>1</sup> margin</b>	<u>30%</u>	<u>41%</u>	<u><b>42%</b></u>	
<i>Mobile Services EBITDA<sup>1</sup> margin</i>	<u>57%</u>	<u>64%</u>	<u><b>57%</b></u>	

During the first half of 2019, the Mobile business recorded continued growth in services revenue which expanded by 1% to HK\$3,881 million from HK\$3,838 million a year earlier. This was on the back of a 17% expansion in our premium 1O1O customer base, customers' continued upgrading to higher-tier plans as well as the full period impact of positive pricing action that was introduced at the end of 2018. However, the value seeking segment of the market continued to be highly price competitive, which partly offset the positive impact of our price increases. During the period, Mobile services revenue was also supported by a 4% year-on-year growth in roaming revenue reflecting the increasing popularity and adoption of our easy-to-use and affordable roaming data passes which stimulates the demand from customers who had previously been using services such as pocket Wi-Fi.

The post-paid exit average revenue per user ("ARPU") as at June 2019 was HK\$198, which represented an increase of 2% from HK\$195 as at June 2018. As at June 30, 2019, our post-paid customer base expanded slightly to 3.247 million, as compared to 3.242 million a year earlier. Total customer base was 4.592 million as at June 30, 2019, an increase of 9% from 4.232 million a year earlier.

The churn rate for post-paid customers improved to 1.0% in the first half of 2019 from 1.1% a year earlier, of which the churn rate for 1O1O customers was even lower at 0.8% for the period. This reflects the effectiveness of our multi-brand strategy, network leadership and enhanced customer retention efforts through The Club.

Revenue from Mobile product sales of HK\$1,341 million was recorded during the period, as compared to HK\$3,374 million a year earlier. The sluggish performance in Mobile product sales reflected the continued lengthening of the handset replacement cycle especially in view of the impending arrival of 5G handsets.

Mobile services EBITDA for the period increased by 1% year-on-year to HK\$2,222 million, benefiting from the 3% savings in operating expenses and yielding a steady margin of 57%. Total Mobile EBITDA for the period increased by 2% year-on-year to HK\$2,206 million. Total EBITDA margin improved to 42% from 30% a year earlier reflecting reduced contribution from the lower margin Mobile product sales.



## **Other Businesses**

Other Businesses primarily comprises new business areas such as The Club and HKT Financial Services, of which Tap & Go is a component, and corporate support functions. Revenue from Other Businesses increased by 34% year-on-year to HK\$103 million for the six months ended June 30, 2019, mainly driven by the growth of these new business units. While revenue generated from these new business units are starting from a low base, The Club achieved encouraging revenue growth during the period driven by the well-received Club Travel business launched in October 2018. As at June 30, 2019, The Club had approximately 2.8 million members, an increase of 13% from 2.5 million a year earlier. Tap & Go had approximately 2.1 million accounts in service as at June 30, 2019, an increase of 68% from 1.2 million a year earlier.

## **Eliminations**

Eliminations were HK\$425 million for the six months ended June 30, 2019, as compared to HK\$422 million a year earlier. This reflects the continued collaboration amongst HKT's various business segments to seamlessly integrate our capabilities and offer comprehensive products and services to consumer and enterprise customers.

## **Cost of Sales**

Cost of sales for the six months ended June 30, 2019 was lower by 22% year-on-year to HK\$6,950 million, reflecting the lower Mobile product sales during the period. Gross margin, therefore, improved to 54% in the first half of 2019, as compared to 48% a year earlier. Excluding Mobile product sales, gross margin was steady at 59% for the period.

## **General and Administrative Expenses**

During the first half of 2019, the Group continued to focus on maximizing efficiencies across our business operations, namely increased staff efficiency through business automation and digitalization processes as well as reduced operational costs from the rationalization of retail shops. As such, operating costs before depreciation, amortization, and gain on disposal of property, plant and equipment, net, ("operating costs") decreased by 4% to HK\$2,426 million for the six months ended June 30, 2019, as compared to HK\$2,525 million a year earlier. Overall operating costs to revenue ratio was 16.1% for the period, as compared to 14.8% a year earlier.

Depreciation expenses decreased by 15% year-on-year as a result of the reduction in the depreciation charge associated with right-of-use assets following our retail shop rationalization, and the Group's ongoing periodic review of useful lives of network assets. Amortization expenses also decreased by 9% due to the gradual reduction of amortization of intangible assets recognized upon the acquisition of CSL business in 2014. As a result, total depreciation and amortization expenses decreased by 12% year-on-year to HK\$2,371 million for the six months ended June 30, 2019.

General and administrative expenses, therefore, decreased by 8% to HK\$4,796 million for the six months ended June 30, 2019, as compared to HK\$5,224 million a year earlier.

## **EBITDA<sup>1</sup>**

As a result of the steady performance in the TSS and Mobile businesses and sustained operating efficiencies, overall EBITDA increased by 2% year-on-year to HK\$5,733 million for the six months ended June 30, 2019. The overall EBITDA margin improved to 38% in the first half of 2019, as compared to 33% a year earlier, reflecting the lower Mobile product sales during the period. Excluding Mobile product sales, the EBITDA margin was steady at 42%.

## **Finance Costs, Net**

Net finance costs for the six months ended June 30, 2019 increased by 6% to HK\$662 million from HK\$626 million a year earlier, mainly due to the general increase in HIBOR during the period. The average cost of debt increased to 3.1% during the period, as compared to 2.8% a year earlier. We will continue to closely monitor the interest rate environment to optimize the ratio of floating to fixed rate debt.

## **Income Tax**

Income tax expense for the six months ended June 30, 2019 was HK\$509 million, as compared to HK\$423 million a year earlier. The increase in income tax expense was mainly due to higher operating profit during the period. The effective tax rate for the period remained steady at 19%, as compared to 18% for the same period last year.

## **Non-controlling Interests**

Non-controlling interests of HK\$8 million (June 30, 2018: HK\$15 million) primarily comprised the net profit attributable to the minority shareholders of Sun Mobile Limited.

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

Profit attributable to holders of Share Stapled Units/shares of the Company for the six months ended June 30, 2019 increased by 16% year-on-year to HK\$2,162 million (June 30, 2018: HK\$1,868 million).

## **LIQUIDITY AND CAPITAL RESOURCES**

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

HKT's gross debt<sup>6</sup> was HK\$40,387 million as at June 30, 2019 (December 31, 2018: HK\$40,387 million). Cash and short-term deposits totaled HK\$2,160 million as at June 30, 2019 (December 31, 2018: HK\$3,057 million). HKT's gross debt<sup>6</sup> to total assets was 41% as at June 30, 2019 (December 31, 2018: 41%).

As at June 30, 2019, HKT had ample liquidity as evidenced by committed banking facilities totaling HK\$31,888 million, of which HK\$9,156 million remained undrawn.

## **CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED**

As at June 30, 2019, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

## **CAPITAL EXPENDITURE<sup>2</sup>**

Capital expenditure including capitalized interest for the six months ended June 30, 2019 was HK\$1,332 million (June 30, 2018: HK\$1,345 million). Capital expenditure relative to revenue was 8.8% for the six months ended June 30, 2019 (June 30, 2018: 7.9%).

Capital expenditure for the Mobile business remained steady in the first half of 2019 with spending focused on critical infrastructure enhancements, network capacity expansion to support data traffic growth and preparation for 5G rollout. Capital expenditure for the TSS business also remained steady during the period, of which the majority was incurred for continued demand for FTTH services and undersea cable investments.

HKT will continue to invest in building digital capabilities to enable its growth in new areas and prudently invest in building a 5G network taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

## **ADJUSTED FUNDS FLOW<sup>3</sup>**

Adjusted funds flow increased by 3% year-on-year to HK\$2,272 million for the six months ended June 30, 2019. This growth was driven by the expansion in EBITDA, and further efficiencies in capital spending as well as customer acquisition and retention efforts. These positive factors were partially offset by increases in fulfillment costs to serve our growing base of consumer and enterprise customers as well as increases in tax payments and net financing costs. Adjusted funds flow was also improved during the period by enhanced working capital management.

The amounts presented in the adjusted funds flow calculation represent the respective cash flows to the Group during the period, which may be different from the related corresponding amounts recognized in the consolidated income statement due to various reasons such as non-cash items recognized in the consolidated income statement and timing difference between accounting recognition and actual cash flows.

## **HEDGING**

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

More than three quarters of HKT'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 HKT's debt is denominated in foreign currencies including United States dollars. Accordingly, HKT 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 June 30, 2019, all forward and swap contracts were designated as cash flow hedges for the related borrowings of HKT.

As a result, the impacts of these operational and financial risks to HKT are considered not material.

## CHARGE ON ASSETS

As at June 30, 2019, no assets of the Group (December 31, 2018: nil) were pledged to secure loans and banking facilities of HKT.

## CONTINGENT LIABILITIES

<b>HK\$ million</b>	<b>As at Dec 31, 2018 (Audited)</b>	<b>As at Jun 30, 2019 (Unaudited)</b>
Performance guarantees	249	<b>603</b>
Others	64	<b>62</b>
	<b>313</b>	<b>665</b>

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

HKT had over 17,300 employees as at June 30, 2019 (June 30, 2018: 17,400) located in 48 countries and cities. About 64% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

## INTERIM DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has resolved to declare an interim distribution by the HKT Trust in respect of the Share Stapled Units, of 30.01 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the six months ended June 30, 2019 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has resolved to declare an interim dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 30.01 HK cents per ordinary share, in respect of the same period) to holders of Share Stapled Units.

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

## **CLOSURE OF BOOKS**

The record date for the interim distribution will be Friday, August 30, 2019. The register of registered holders of Share Stapled Units, the register of holders of units, the principal and Hong Kong branch registers of members of the Company and the register of beneficial interests as maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Thursday, August 29, 2019 to Friday, August 30, 2019 (both days inclusive), in order to determine entitlements to the interim distribution. During such period, no transfer of Share Stapled Units will be effected. In order to qualify for the interim distribution, all transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, August 28, 2019. Distribution warrants will be despatched to holders of Share Stapled Units on or around Thursday, September 26, 2019.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

During the six months ended June 30, 2019, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

## **AUDIT COMMITTEE**

The Trustee-Manager's Audit Committee and the Company's Audit Committee have reviewed the accounting policies adopted by the Group and the Trustee-Manager, the unaudited condensed consolidated interim financial information of the HKT Trust and HKT Limited for the six months ended June 30, 2019 and the unaudited condensed interim financial information of the Trustee-Manager for the same period. Such financial information of the HKT Trust and HKT Limited and of the Trustee-Manager has not been audited but has been reviewed by the independent auditor of the Trustee-Manager and the Company.

## **CORPORATE GOVERNANCE CODE**

The HKT Trust, the Trustee-Manager and the Company are committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of their businesses, and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

The HKT Trust and the Company have applied the principles, and complied with all relevant code provisions of the Corporate Governance Code (the "CG Code") in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended June 30, 2019, save and except for the code provisions set out below. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the code provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by code provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This announcement is published on the websites of the Company ([www.hkt.com/ir](http://www.hkt.com/ir)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2019 interim report will be despatched to holders of Share Stapled Units and available on the above websites in due course.

By order of the boards of  
**HKT Management Limited**  
and  
**HKT Limited**  
**Bernadette M. Lomas**  
*Group General Counsel and Company Secretary*

Hong Kong, August 7, 2019

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

For the six months ended June 30, 2019

(In HK\$ million except for earnings per Share Stapled Unit/share of the Company)

	Note(s)	2018 (Unaudited)	2019 (Unaudited)
Revenue	2	17,022	<b>15,109</b>
Cost of sales		(8,858)	<b>(6,950)</b>
General and administrative expenses		(5,224)	<b>(4,796)</b>
Other (losses)/gains, net		(2)	<b>1</b>
Finance costs, net		(626)	<b>(662)</b>
Share of results of associates		–	<b>(12)</b>
Share of results of joint ventures		(6)	<b>(11)</b>
Profit before income tax	2, 3	2,306	<b>2,679</b>
Income tax	4	(423)	<b>(509)</b>
Profit for the period		<b>1,883</b>	<b>2,170</b>
Attributable to:			
Holders of Share Stapled Units/shares of the Company		1,868	<b>2,162</b>
Non-controlling interests		15	<b>8</b>
Profit for the period		<b>1,883</b>	<b>2,170</b>
Earnings per Share Stapled Unit/share of the Company	6		
Basic		<b>24.67 cents</b>	<b>28.55 cents</b>
Diluted		<b>24.67 cents</b>	<b>28.55 cents</b>

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

For the six months ended June 30, 2019

In HK\$ million	2018 (Unaudited)	2019 (Unaudited)
Profit for the period	1,883	2,170
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(22)	(2)
Cash flow hedges:		
- effective portion of changes in fair value	105	127
- transfer from equity to consolidated income statement	(36)	52
Costs of hedging	2	23
Other comprehensive income for the period	49	200
Total comprehensive income for the period	1,932	2,370
Attributable to:		
Holders of Share Stapled Units/shares of the Company	1,917	2,362
Non-controlling interests	15	8
Total comprehensive income for the period	1,932	2,370



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF  
HKT TRUST AND OF HKT LIMITED**

As at June 30, 2019

In HK\$ million	Note	As at December 31, 2018 (Audited)	As at June 30, 2019 (Unaudited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		20,601	21,458
Right-of-use assets		2,808	2,560
Interests in leasehold land		227	221
Goodwill		49,805	49,810
Intangible assets		8,691	8,995
Fulfillment costs		1,336	1,391
Customer acquisition costs		632	584
Contract assets		295	290
Interests in associates		–	230
Interests in joint ventures		678	616
Financial assets at fair value through other comprehensive income		77	77
Financial assets at fair value through profit or loss		8	9
Derivative financial instruments		148	177
Deferred income tax assets		465	443
Other non-current assets		1,065	1,086
		<b>86,836</b>	<b>87,947</b>
<b>Current assets</b>			
Inventories		1,080	869
Prepayments, deposits and other current assets		2,033	2,256
Contract assets		630	585
Trade receivables, net	7	3,727	3,886
Amounts due from related companies		102	118
Financial assets at fair value through profit or loss		12	7
Derivative financial instruments		–	25
Restricted cash		88	100
Short-term deposits		523	389
Cash and cash equivalents		2,534	1,771
		<b>10,729</b>	<b>10,006</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF  
HKT TRUST AND OF HKT LIMITED (CONTINUED)**

As at June 30, 2019

In HK\$ million	Note	As at December 31, 2018 (Audited)	As at June 30, 2019 (Unaudited)
<b>Current liabilities</b>			
Trade payables	8	(1,787)	(2,037)
Accruals and other payables		(4,771)	(4,401)
Carrier licence fee liabilities		(173)	(152)
Amount due to a fellow subsidiary		(1,675)	(2,780)
Advances from customers		(266)	(280)
Contract liabilities		(1,415)	(1,450)
Lease liabilities		(1,293)	(1,219)
Current income tax liabilities		(761)	(851)
		(12,141)	(13,170)
<b>Non-current liabilities</b>			
Long-term borrowings		(40,169)	(40,126)
Derivative financial instruments		(152)	(35)
Deferred income tax liabilities		(3,393)	(3,605)
Carrier licence fee liabilities		(357)	(322)
Contract liabilities		(1,010)	(1,012)
Lease liabilities		(1,900)	(1,676)
Other long-term liabilities		(849)	(1,030)
		(47,830)	(47,806)
<b>Net assets</b>		<b>37,594</b>	<b>36,977</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		8	8
Reserves		37,547	36,929
<b>Equity attributable to holders of Share Stapled</b>			
<b>Units/shares of the Company</b>		<b>37,555</b>	<b>36,937</b>
Non-controlling interests		39	40
<b>Total equity</b>		<b>37,594</b>	<b>36,977</b>

## NOTES

### 1. BASIS OF PREPARATION AND PRESENTATION

The HKT Trust (the “HKT Trust”) is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the “Trust Deed”), entered into between HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) and HKT Limited (the “Company”). In accordance with the Trust Deed, the HKT Trust and HKT Limited are each required to prepare their own interim financial information on a consolidated basis. The HKT Trust unaudited condensed consolidated interim financial information for the period ended June 30, 2019 comprises the unaudited condensed consolidated interim financial information of the HKT Trust, HKT Limited and its subsidiaries (together the “Group”), and the Group’s interests in associates and joint ventures. The HKT Limited unaudited condensed consolidated interim financial information for the period ended June 30, 2019 comprises the unaudited condensed consolidated interim financial information of HKT Limited and its subsidiaries (together the “HKT Limited Group”) and the HKT Limited Group’s interests in associates and joint ventures, and the Company’s statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the period ended June 30, 2019 was investing in HKT Limited. Therefore, the consolidated financial results and financial position that would be presented in the unaudited condensed consolidated interim financial information of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of the capital of HKT Limited. The directors of the Trustee-Manager and the directors of the Company believe therefore that it is clearer to present the unaudited condensed consolidated interim financial information of the HKT Trust and of the Company together. The unaudited condensed consolidated interim financial information of the HKT Trust and the unaudited condensed consolidated interim financial information of HKT Limited are presented together to the extent they are identical and are hereinafter referred to as the “HKT Trust and HKT Limited unaudited condensed consolidated interim financial information”.

The Group and the HKT Limited Group are referred to as the “Groups”.

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

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of the HKT Trust and HKT Limited for the year ended December 31, 2018.

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information was approved for issue on August 7, 2019.

## 1. BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information has been reviewed by the Audit Committee of the Trustee-Manager and of the Company and, in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA, by the Groups' independent auditor.

The financial information of the Trustee-Manager relating to the year ended December 31, 2018 that is included in this interim results announcement as comparative information does not constitute the Trustee-Manager's statutory annual financial statements for that year 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 Trustee-Manager's financial statements combined with the HKT Trust and HKT Limited consolidated financial statements for the year ended December 31, 2018 has been delivered to the Registrar of Companies.
- The Trustee-Manager's auditor has reported on those financial statements of the Trustee-Manager. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

As at June 30, 2019, the current liabilities of the Groups exceeded their current assets by approximately HK\$3,164 million. Included in the current liabilities were current portion of contract liabilities of HK\$1,450 million recognized under Hong Kong Financial Reporting Standard ("HKFRS") 15 which will gradually reduce over the contract terms through the satisfaction of performance obligations and current portion of lease liabilities of HK\$1,219 million recognized under HKFRS 16 which is the amount related to leases that has a lease term more than 12 months and with a corresponding asset recorded in the non-current assets as right-of-use assets. Management of the Groups anticipates the net cash inflows from their operations, together with the ability to draw down from available bank loan facilities, would be sufficient to enable the Groups to meet their liabilities as and when they fall due. Accordingly, this unaudited condensed consolidated interim financial information has been prepared on a going concern basis.

The preparation of the HKT Trust and HKT Limited unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by management in applying the Groups' accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018, with the exception of changes in estimates that are required in determining the useful lives of certain property, plant and equipment. As part of the Groups' continuous accounting procedure, it is required to reassess the useful lives of property, plant and equipment on a regular basis. Pursuant to such reassessment, the Groups' profit attributable to the holders of Share Stapled Units/shares of the Company for the six months ended June 30, 2019 increased by HK\$102 million and the equity attributable to the holders of Share Stapled Units/shares of the Company as at June 30, 2019 increased by HK\$102 million.

## 1. BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

The accounting policies, basis of presentation and methods of computation used in preparing the HKT Trust and HKT Limited unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Groups' annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the following new or amended HKFRSs, HKASs and Interpretations ("Ints") (collectively "new or amended HKFRSs") which are effective for accounting periods beginning on or after January 1, 2019 as described below.

The following new or amended HKFRSs are mandatory for the first time for the financial year beginning January 1, 2019, but have no material effect on the Groups' reported results and financial position for the current and prior accounting periods:

- HKAS 19 (2011) (Amendments), *Employee Benefits*
- HKAS 28 (2011) (Amendments), *Investments in Associates and Joint Ventures*
- HKFRS 9 (2014) (Amendments), *Financial Instruments*
- HK(IFRIC) – Int 23, *Uncertainty over Income Tax Treatments*
- Annual Improvements to HKFRSs 2015-2017 Cycle issued in February 2018 by HKICPA

The Groups have not early adopted any new or amended HKFRSs that are not yet effective for the current accounting period.

## 2. SEGMENT INFORMATION

The chief operating decision-maker (the “CODM”) is the Groups’ senior executive management. The CODM reviews the Groups’ 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:

- Telecommunications Services (“TSS”) is the leading provider of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, enterprise solutions, 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.
- Mobile includes the Groups’ mobile telecommunications businesses in Hong Kong.
- Other businesses of the Groups (“Other Businesses”) primarily comprises new business areas such as The Club and HKT Financial Services, of which Tap & Go is a component, and 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 and amortization, gain/loss on disposal of property, plant and equipment, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Groups’ 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 Groups' reportable segments as provided to the Groups' CODM is set out below:

For the six months ended June 30, 2018

(In HK\$ million)

	TSS (Unaudited)	Mobile (Unaudited)	Other Businesses (Unaudited)	Eliminations (Unaudited)	Total (Unaudited)
<b>REVENUE</b>					
Total Revenue	10,155	7,212	77	(422)	17,022
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,019	3,374	68	(102)	4,359
Over time	9,107	3,838	9	(320)	12,634
Revenue from other sources:					
Rental income	29	–	–	–	29
	10,155	7,212	77	(422)	17,022
<b>RESULTS</b>					
EBITDA	3,762	2,170	(293)	–	5,639

For the six months ended June 30, 2019

(In HK\$ million)

	TSS (Unaudited)	Mobile (Unaudited)	Other Businesses (Unaudited)	Eliminations (Unaudited)	Total (Unaudited)
<b>REVENUE</b>					
Total Revenue	10,209	5,222	103	(425)	15,109
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,055	1,341	26	(59)	2,363
Over time	9,118	3,881	77	(363)	12,713
Revenue from other sources:					
Rental income	36	–	–	(3)	33
	10,209	5,222	103	(425)	15,109
<b>RESULTS</b>					
EBITDA	3,828	2,206	(301)	–	5,733

## 2. SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	Six months ended	
	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)
Total segment EBITDA	5,639	5,733
Gain on disposal of property, plant and equipment, net	2	1
Depreciation and amortization	(2,701)	(2,371)
Other (losses)/gains, net	(2)	1
Finance costs, net	(626)	(662)
Share of results of associates and joint ventures	(6)	(23)
Profit before income tax	2,306	2,679

## 3. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK\$ million	Six months ended	
	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)
Cost of inventories sold	4,123	2,261
Cost of sales, excluding inventories sold	4,735	4,689
Depreciation of property, plant and equipment	698	513
Depreciation of right-of-use assets	789	752
Amortization of intangible assets	584	488
Amortization of fulfillment costs	223	218
Amortization of customer acquisition costs	401	394
Amortization of land lease premium – interests in leasehold land	6	6
Impairment loss for trade receivables	129	150
Finance costs on borrowings	576	640



#### 4. INCOME TAX

In HK\$ million	Six months ended	
	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)
Current income tax:		
Hong Kong profits tax	293	268
Overseas tax	(3)	7
Movement of deferred income tax	133	234
Income tax expense	<u>423</u>	<u>509</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the respective jurisdictions.

#### 5. DISTRIBUTIONS/DIVIDENDS

##### a. Distributions/Dividends attributable to the interim period

In HK\$ million	Six months ended	
	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)
Interim distribution/dividend declared after the end of the interim period of 30.01 HK cents (2018: 29.12 HK cents) per Share Stapled Unit/ordinary share of the Company	<u>2,205</u>	<u>2,272</u>

At meetings held on August 7, 2019, the directors of the Trustee-Manager and the Company declared an interim distribution/dividend of 30.01 HK cents per Share Stapled Unit/ordinary share of the Company for the year ending December 31, 2019. This interim distribution/dividend is not reflected as a distribution/dividend payable in the HKT Trust and HKT Limited unaudited condensed consolidated interim financial information.

##### b. Distributions/Dividends approved and paid during the interim period

In HK\$ million	Six months ended	
	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)
Final distribution/dividend declared in respect of the previous financial year, approved and paid during the interim period of 39.17 HK cents (2018: 36.75 HK cents) per Share Stapled Unit/ordinary share of the Company	<u>2,783</u>	<u>2,966</u>

## 6. EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	<b>Six months ended</b>	
	June 30, 2018 (Unaudited)	<b>June 30, 2019 (Unaudited)</b>
<b>Earnings (in HK\$ million)</b>		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	1,868	<b>2,162</b>
<b>Number of Share Stapled Units/shares of the Company</b>		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,571,742,334	<b>7,571,742,334</b>
Effect of Share Stapled Units held under the Company's Share Stapled Units award schemes	(678,304)	<b>(356,911)</b>
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company	7,571,064,030	<b>7,571,385,423</b>
Effect of Share Stapled Units awarded under the Company's Share Stapled Units award schemes	1,859,493	<b>1,659,062</b>
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Share Stapled Unit/share of the Company	7,572,923,523	<b>7,573,044,485</b>

## 7. TRADE RECEIVABLES, NET

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

In HK\$ million	As at December 31, 2018 (Audited)	As at <b>June 30, 2019 (Unaudited)</b>
1 – 30 days	2,889	<b>2,872</b>
31 – 60 days	288	<b>305</b>
61 – 90 days	155	<b>179</b>
91 – 120 days	99	<b>162</b>
Over 120 days	431	<b>551</b>
	3,862	<b>4,069</b>
Less: loss allowance	(135)	<b>(183)</b>
Trade receivables, net	3,727	<b>3,886</b>

## 7. TRADE RECEIVABLES, NET (CONTINUED)

Included in trade receivables, net were amounts due from related parties of HK\$56 million and HK\$47 million as at June 30, 2019 and December 31, 2018 respectively.

The Groups' normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted.

## 8. TRADE PAYABLES

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

In HK\$ million	As at December 31, 2018 (Audited)	As at June 30, 2019 (Unaudited)
1 – 30 days	1,205	1,288
31 – 60 days	121	162
61 – 90 days	53	91
91 – 120 days	22	74
Over 120 days	386	422
	<u>1,787</u>	<u>2,037</u>

Included in trade payables were amounts due to related parties of HK\$35 million and HK\$32 million as at June 30, 2019 and December 31, 2018 respectively.

**INCOME STATEMENT OF  
HKT MANAGEMENT LIMITED**  
For the six months ended June 30, 2019

In HK\$'000	2018 (Unaudited)	2019 (Unaudited)
Management fee income	26	27
General and administrative expenses	(26)	(27)
Result before income tax	–	–
Income tax	–	–
Result for the period	–	–

**STATEMENT OF COMPREHENSIVE INCOME OF  
HKT MANAGEMENT LIMITED**  
For the six months ended June 30, 2019

In HK\$'000	2018 (Unaudited)	2019 (Unaudited)
Result for the period	–	–
Other comprehensive income	–	–
Total comprehensive income for the period	–	–

**STATEMENT OF FINANCIAL POSITION OF  
HKT MANAGEMENT LIMITED**

As at June 30, 2019

In HK\$'000	As at December 31, 2018 (Audited)	As at June 30, 2019 (Unaudited)
<b>ASSETS AND LIABILITIES</b>		
<b>Current assets</b>		
Amount due from a fellow subsidiary	330	357
	330	357
<b>Current liabilities</b>		
Accruals and other payables	(51)	(25)
Amounts due to fellow subsidiaries	(279)	(332)
	(330)	(357)
<b>Net assets</b>	—	—
<b>CAPITAL AND RESERVES</b>		
Share capital	—	—
Reserves	—	—
<b>Total equity</b>	—	—

As at the date of this announcement, the directors of the Trustee-Manager and the Company are as follows:

*Executive Directors:*

Li Tzar Kai, Richard (*Executive Chairman*) and Hui Hon Hing, Susanna (*Group Managing Director*)

*Non-Executive Directors:*

Peter Anthony Allen; Chung Cho Yee, Mico; Li Fushen; Zhu Kebing and Srinivas Bangalore Gangaiah (aka BG Srinivas)

*Independent Non-Executive Directors:*

Professor Chang Hsin Kang, FREng, GBS, JP; Sunil Varma; Aman Mehta and Frances Waikwun Wong

## **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 HKT relating to the business, industry and markets in which HKT operates.