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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)**

# **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 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 audited consolidated results of the HKT Trust and of the Company together with the Company’s subsidiaries (collectively the “Group”) for the year ended December 31, 2019.

- Total revenue excluding Mobile product sales increased by 1% to HK\$29,703 million; total revenue decreased by 6% to HK\$33,103 million
- Total EBITDA increased by 2% to HK\$12,817 million
- Profit attributable to holders of Share Stapled Units increased by 8% to HK\$5,217 million; basic earnings per Share Stapled Unit was 68.91 HK cents
- Adjusted funds flow for the year increased by 3% to HK\$5,329 million; adjusted funds flow per Share Stapled Unit was 70.38 HK cents
- Final distribution per Share Stapled Unit of 40.37 HK cents, resulting in a total distribution of 70.38 HK cents

## MANAGEMENT REVIEW

We are pleased to announce that HKT delivered a solid financial performance in 2019 despite a weak global economic environment and challenging local market conditions. HKT remained focused on deepening its customer engagement, providing innovative value-added services and a better user experience for customers – all of which reinforce our position as the leading integrated telecommunications service provider to both consumer and business customers in Hong Kong.

Total revenue excluding Mobile product sales for the year ended December 31, 2019 increased by 1% to HK\$29,703 million, underpinned by steady growth in Telecommunications Services (“TSS”) and Mobile Services revenue even as competition remained intense. Revenue from Mobile product sales of HK\$3,400 million was recorded during the year, as compared to HK\$5,757 million a year earlier, reflecting a longer handset replacement cycle especially in view of the impending arrival of 5G handsets and poor consumer sentiment.

Total EBITDA for the year was HK\$12,817 million, an increase of 2% over the previous year, as we continued to drive operating efficiencies across all lines of our business.

Profit attributable to holders of the share stapled units of the HKT Trust and HKT (“Share Stapled Units”) was HK\$5,217 million, an increase of 8% over the previous year. Basic earnings per Share Stapled Unit was 68.91 HK cents.

Adjusted funds flow for the year ended December 31, 2019 expanded by 3% to HK\$5,329 million. Annual adjusted funds flow per Share Stapled Unit correspondingly grew by 3% to 70.38 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 40.37 HK cents per Share Stapled Unit for the year ended December 31, 2019. This brings the 2019 full-year distribution to 70.38 HK cents per Share Stapled Unit (comprising 30.01 HK cents as interim distribution and 40.37 HK cents as final distribution) representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

## OUTLOOK

First and foremost, HKT is working towards the introduction in April of a quality 5G service for Hong Kong’s early adopters, offering unique consumer applications in VR/AR, gaming and other immersive content. More importantly, we believe 5G will open the door to numerous opportunities in commercial applications given its ultra-high speed, massive connectivity, and ultra-low latency.

Although investment sentiment in the commercial segment has been blunted, we expect large enterprises, public bodies and the Government to continue their digital transformation and infrastructure projects in order to stay more competitive and be more efficient. HKT has the advantage of a proven track record as a reliable partner in major Information and Communications Technology (“ICT”) projects.

As our digital ecosystem – including The Club, new verticals such as travel and financial services – continues to evolve and mature, we will be bringing customers more comprehensive and exciting services this year.

HKT has been able to serve our customers exceptionally well and safeguard our leading market position while Hong Kong is going through a difficult time. The economic and social repercussions of last year’s events and the recent outbreak of a novel coronavirus are not to be underestimated; we will therefore exercise extra caution on investment and costs as we seek to grow new revenue streams. We are confident that HKT will continue to perform as a formidable team in 2020, as Hong Kong recovers and works towards the return of peace and prosperity.

## FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2018			2019			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
<b>Revenue</b>							
TSS	10,155	11,619	<b>21,774</b>	10,209	11,744	<b>21,953</b>	1%
Mobile	7,212	6,797	<b>14,009</b>	5,222	6,592	<b>11,814</b>	(16)%
- Mobile Services	3,838	4,414	<b>8,252</b>	3,881	4,533	<b>8,414</b>	2%
- Mobile Product Sales	3,374	2,383	<b>5,757</b>	1,341	2,059	<b>3,400</b>	(41)%
Other Businesses	77	163	<b>240</b>	103	133	<b>236</b>	(2)%
Eliminations	(422)	(414)	<b>(836)</b>	(425)	(475)	<b>(900)</b>	(8)%
<b>Total revenue</b>	<b>17,022</b>	<b>18,165</b>	<b>35,187</b>	<b>15,109</b>	<b>17,994</b>	<b>33,103</b>	(6)%
<b>Total revenue (excluding Mobile Product Sales)</b>	<b>13,648</b>	<b>15,782</b>	<b>29,430</b>	<b>13,768</b>	<b>15,935</b>	<b>29,703</b>	1%
<b>Cost of sales</b>	<b>(8,858)</b>	<b>(9,122)</b>	<b>(17,980)</b>	<b>(6,950)</b>	<b>(8,837)</b>	<b>(15,787)</b>	12%
<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>(4,649)</b>	<b>(2,426)</b>	<b>(2,073)</b>	<b>(4,499)</b>	3%
<b>EBITDA<sup>1</sup></b>							
TSS	3,762	4,442	<b>8,204</b>	3,828	4,532	<b>8,360</b>	2%
Mobile	2,170	2,789	<b>4,959</b>	2,206	2,862	<b>5,068</b>	2%
- Mobile Services	2,201	2,833	<b>5,034</b>	2,222	2,879	<b>5,101</b>	1%
- Mobile Product Sales	(31)	(44)	<b>(75)</b>	(16)	(17)	<b>(33)</b>	56%
Other Businesses	(293)	(312)	<b>(605)</b>	(301)	(310)	<b>(611)</b>	(1)%
<b>Total EBITDA<sup>1</sup></b>	<b>5,639</b>	<b>6,919</b>	<b>12,558</b>	<b>5,733</b>	<b>7,084</b>	<b>12,817</b>	2%
<b>TSS EBITDA<sup>1</sup> Margin</b>	<b>37%</b>	<b>38%</b>	<b>38%</b>	<b>37%</b>	<b>39%</b>	<b>38%</b>	
<b>Mobile EBITDA<sup>1</sup> Margin</b>	<b>30%</b>	<b>41%</b>	<b>35%</b>	<b>42%</b>	<b>43%</b>	<b>43%</b>	
- Mobile Services EBITDA <sup>1</sup> Margin	57%	64%	<b>61%</b>	57%	64%	<b>61%</b>	
<b>Total EBITDA<sup>1</sup> Margin</b>	<b>33%</b>	<b>38%</b>	<b>36%</b>	<b>38%</b>	<b>39%</b>	<b>39%</b>	
<b>Total EBITDA<sup>1</sup> Margin (excluding Mobile Product Sales)</b>	<b>42%</b>	<b>44%</b>	<b>43%</b>	<b>42%</b>	<b>45%</b>	<b>43%</b>	
Depreciation and amortization	(2,701)	(2,642)	<b>(5,343)</b>	(2,371)	(2,750)	<b>(5,121)</b>	4%
Gain/(loss) on disposal of property, plant and equipment, net	2	(1)	<b>1</b>	1	(3)	<b>(2)</b>	NA
Other (losses)/gains, net	(2)	4	<b>2</b>	1	2	<b>3</b>	50%
Finance costs, net	(626)	(724)	<b>(1,350)</b>	(662)	(710)	<b>(1,372)</b>	(2)%
Share of results of associates and joint ventures	(6)	(10)	<b>(16)</b>	(23)	(28)	<b>(51)</b>	(219)%
<b>Profit before income tax</b>	<b>2,306</b>	<b>3,546</b>	<b>5,852</b>	<b>2,679</b>	<b>3,595</b>	<b>6,274</b>	7%

## ADJUSTED FUNDS FLOW

For the year ended December 31, HK\$ million	2018			2019			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
<b>Total EBITDA<sup>1</sup></b>	5,639	6,919	<b>12,558</b>	5,733	7,084	<b>12,817</b>	2%
Less cash outflows in respect of capital expenditures, customer acquisition costs and licence fees <sup>2</sup> :							
Capital expenditures	(1,322)	(1,214)	<b>(2,536)</b>	(1,292)	(1,350)	<b>(2,642)</b>	(4)%
Customer acquisition costs and licence fees	(444)	(804)	<b>(1,248)</b>	(401)	(796)	<b>(1,197)</b>	4%
Fulfillment costs	(180)	(195)	<b>(375)</b>	(273)	(222)	<b>(495)</b>	(32)%
Right-of-use assets	(847)	(818)	<b>(1,665)</b>	(849)	(795)	<b>(1,644)</b>	1%
<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>6,734</b>	2,918	3,921	<b>6,839</b>	2%
Adjusted for:							
Net finance costs paid	(436)	(411)	<b>(847)</b>	(473)	(420)	<b>(893)</b>	(5)%
Tax payment	(174)	(524)	<b>(698)</b>	(185)	–	<b>(185)</b>	73%
Changes in working capital	(31)	13	<b>(18)</b>	12	(444)	<b>(432)</b>	>(500)%
<b>Adjusted funds flow<sup>3</sup></b>	2,205	2,966	<b>5,171</b>	2,272	3,057	<b>5,329</b>	3%
<b>Annual adjusted funds flow per Share Stapled Unit (HK cents)<sup>4</sup></b>			<b>68.29</b>			<b>70.38</b>	

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

	2018		2019		Better/ (Worse) y-o-y
	H1	H2	H1	H2	
Exchange lines in service ('000)	2,636	2,631	2,616	2,598	(1)%
Business lines ('000)	1,251	1,251	1,247	1,240	(1)%
Residential lines ('000)	1,385	1,380	1,369	1,358	(2)%
Total broadband access lines ('000) (Consumer, business and wholesale)	1,606	1,615	1,615	1,620	–
Retail consumer broadband access lines ('000)	1,439	1,445	1,446	1,450	–
Retail business broadband access lines ('000)	155	158	158	159	1%
Mobile subscribers ('000)	4,232	4,324	4,592	4,679	8%
Post-paid subscribers ('000)	3,242	3,247	3,247	3,250	–
Prepaid subscribers ('000)	990	1,077	1,345	1,429	33%
The Club members ('000)	2,527	2,729	2,845	2,953	8%
Tap & Go accounts in service ('000)	1,245	1,756	2,086	2,476	41%

- 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 audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.*
- Note 4 Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.*
- 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 year ended December 31, HK\$ million	2018			2019			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
<b>TSS Revenue</b>							
Local Telephony Services	1,634	1,706	<b>3,340</b>	1,612	1,648	<b>3,260</b>	(2)%
Local Data Services	3,372	4,000	<b>7,372</b>	3,619	4,168	<b>7,787</b>	6%
International Telecommunications Services	3,637	3,839	<b>7,476</b>	3,440	3,906	<b>7,346</b>	(2)%
Other Services	1,512	2,074	<b>3,586</b>	1,538	2,022	<b>3,560</b>	(1)%
<b>Total TSS Revenue</b>	10,155	11,619	<b>21,774</b>	10,209	11,744	<b>21,953</b>	1%
Cost of sales	(4,839)	(5,818)	<b>(10,657)</b>	(4,864)	(5,975)	<b>(10,839)</b>	(2)%
Operating costs before depreciation and amortization	(1,554)	(1,359)	<b>(2,913)</b>	(1,517)	(1,237)	<b>(2,754)</b>	5%
<b>Total TSS EBITDA<sup>1</sup></b>	3,762	4,442	<b>8,204</b>	3,828	4,532	<b>8,360</b>	2%
<b>TSS EBITDA<sup>1</sup> margin</b>	37.0%	38.2%	<b>37.7%</b>	37.5%	38.6%	<b>38.1%</b>	

TSS revenue for the year ended December 31, 2019 increased by 1% to HK\$21,953 million. EBITDA for the year increased by 2% to HK\$8,360 million, with the margin improving to 38.1% from 37.7% a year earlier benefiting from a 5% savings in operating expenses during the year.

*Local Telephony Services.* Local telephony services revenue was HK\$3,260 million for the year ended December 31, 2019, as compared to HK\$3,340 million a year earlier, reflecting the gradual transition of local telephony customers to HKT's broadband and mobile services as well as a decline in lines in service from the SME segment due to the economic slowdown. Total fixed lines in service at the end of December 2019 were 2.598 million<sup>1</sup>, as compared to 2.631 million a year earlier.

*Local Data Services.* Local data services revenue, comprising broadband network revenue and local data revenue, increased by 6% to HK\$7,787 million for the year ended December 31, 2019.

Broadband network revenue sustained a growth of 2% during the year, marking the 12<sup>th</sup> consecutive year of growth. This achievement stems from the competitive differentiation of our territory-wide fiber-to-the-home ("FTTH") service, multi-brand customized services through "HKT Premier", "NETVIGATOR" and "LiKE100", and comprehensive range of service offerings and value-added solutions such as Home Wi-Fi to meet our customers' smart living needs. At the end of December 2019, the total number of broadband access lines expanded to 1.62 million from 1.615 million as at the end of December 2018, with a blended churn rate of 0.8%. Notably, of those broadband access lines, there were 833,000 FTTH access lines, which represented a net increase of 52,000 or 7% from a year earlier.

To better serve its enterprise customers, HKT is leveraging its technology capabilities and partnerships to provide unmatched total solution offerings that support digital transformation. As a result, the local data business delivered strong revenue growth of 13% for the year ended December 31, 2019, benefiting from the growing digital transformation initiatives particularly in industries experiencing rapid digital adoption such as the public and financial services sectors. We are also seeing continued demand for our managed network facilities and cloud services as well as high-speed private IP networks during the year.

## **Telecommunications Services (Continued)**

*International Telecommunications Services.* International telecommunications services revenue for the year ended December 31, 2019 was HK\$7,346 million, as compared to HK\$7,476 million a year earlier. The continued demand for data connectivity services from international carriers and enterprise customers has been offset by the industry-wide contraction of global wholesale voice and IDD businesses during the year.

*Other Services.* Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment (“CPE”), provision of technical and maintenance subcontracting services and contact centre services (“Teleservices”). Other services revenue for the year ended December 31, 2019 marginally declined to HK\$3,560 million due to lower CPE sales amid more cautious customer spending in the second half of 2019, which was partly offset by an increase in Teleservices revenue.

## Mobile

For the year ended December 31, HK\$ million	2018			2019			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
<b>Mobile Revenue</b>							
Mobile Services	3,838	4,414	<b>8,252</b>	3,881	4,533	<b>8,414</b>	2%
Mobile Product Sales	3,374	2,383	<b>5,757</b>	1,341	2,059	<b>3,400</b>	(41)%
<b>Total Mobile Revenue</b>	<u>7,212</u>	<u>6,797</u>	<u><b>14,009</b></u>	<u>5,222</u>	<u>6,592</u>	<u><b>11,814</b></u>	(16)%
<b>Mobile EBITDA<sup>1</sup></b>							
Mobile Services	2,201	2,833	<b>5,034</b>	2,222	2,879	<b>5,101</b>	1%
Mobile Product Sales	(31)	(44)	<b>(75)</b>	(16)	(17)	<b>(33)</b>	56%
<b>Total Mobile EBITDA<sup>1</sup></b>	<u>2,170</u>	<u>2,789</u>	<u><b>4,959</b></u>	<u>2,206</u>	<u>2,862</u>	<u><b>5,068</b></u>	2%
<b>Mobile EBITDA<sup>1</sup> margin</b>	<u>30%</u>	<u>41%</u>	<u><b>35%</b></u>	<u>42%</u>	<u>43%</u>	<u><b>43%</b></u>	
<i>Mobile Services EBITDA<sup>1</sup> margin</i>	<u>57%</u>	<u>64%</u>	<u><b>61%</b></u>	<u>57%</u>	<u>64%</u>	<u><b>61%</b></u>	

The Mobile business recorded continued growth in services revenue for the year ended December 31, 2019 which expanded by 2% to HK\$8,414 million from HK\$8,252 million a year earlier. This growth was driven by a 13% expansion in our premium 1O1O customer base, higher subscription of value-added services, as well as an increased revenue contribution from mobile enterprise solutions in the corporate segment. Competition in the value seeking segment of the market intensified during the year and exerted more pricing pressure in that segment. During the year, Mobile services revenue was also underpinned by an increase in roaming revenue, reflecting the increased adoption of our easy-to-use and affordable roaming data passes by customers through mobile apps.

The post-paid exit average revenue per user (“ARPU”) as at December 2019 was HK\$200, which represented a 1% increase from HK\$198 as at December 2018. As at December 31, 2019, our post-paid customer base expanded slightly to 3.25 million, as compared to 3.247 million a year earlier. Total customer base was 4.679 million as at December 31, 2019, an increase of 8% from 4.324 million a year earlier.

The churn rate for post-paid customers remained steady at 1.0% in 2019. This reflects the effectiveness of our multi-brand strategy, network leadership and enhanced customer retention efforts through The Club.

Mobile product sales recorded revenue of HK\$3,400 million during the year, as compared to HK\$5,757 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 and poor consumer sentiment amidst the social unrest in the second half of the year.

Mobile services EBITDA for the year increased by 1% to HK\$5,101 million, benefiting from the 2% savings in operating expenses, thereby yielding a steady margin of 61%. Total Mobile EBITDA for the year increased by 2% to HK\$5,068 million, as compared to HK\$4,959 million a year earlier. Total EBITDA margin improved to 43% from 35% a year earlier reflecting the reduced contribution from lower margin Mobile product sales.



## **Other Businesses**

Other Businesses primarily comprises new business areas such as The Club and HKT Financial Services, and corporate support functions. Revenue from Other Businesses held steady at HK\$236 million for the year ended December 31, 2019, as compared to HK\$240 million a year earlier. Leveraging on its growing membership base of 2.95 million – an increase of 8% from 2.73 million a year earlier, The Club expanded its range of coalition partners and redemption items to help strengthen engagement across the membership base.

## **Eliminations**

Eliminations were HK\$900 million for the year ended December 31, 2019, as compared to HK\$836 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 year ended December 31, 2019 was lower by 12% to HK\$15,787 million, reflecting the lower Mobile product sales during the year.

## **General and Administrative Expenses**

For the year ended December 31, 2019, the Group continued to focus on maximizing efficiencies across our business operations, namely increased staff efficiency through automation and digitalization of business processes, increased distribution channel efficiency through online sales channels as well as reduced operational costs from the rationalization of retail shops. As such, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") decreased by 3% to HK\$4,499 million for the year ended December 31, 2019, as compared to HK\$4,649 million a year earlier. The operating costs to Mobile Services revenue ratio for the Mobile business improved to 16.5% from 17.1% a year earlier, while the operating costs to revenue ratio for the TSS business improved to 12.5% from 13.4% a year earlier. Overall operating costs to revenue ratio was 13.6% for the year, as compared to 13.2% a year earlier.

Amortization expenses remained steady for the year, while depreciation expenses decreased by 8% 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 the useful lives of network assets. Total depreciation and amortization expenses, therefore, decreased by 4% to HK\$5,121 million for the year ended December 31, 2019.

As a result, general and administrative expenses decreased by 4% to HK\$9,622 million for the year ended December 31, 2019, as compared to HK\$9,991 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% to HK\$12,817 million for the year ended December 31, 2019. The overall EBITDA margin improved to 39% in 2019, as compared to 36% a year earlier, reflecting the lower Mobile product sales during the year. Excluding Mobile product sales, the EBITDA margin was steady at 43% for the year.

## **Finance Costs, Net**

Net finance costs for the year ended December 31, 2019 increased by 2% to HK\$1,372 million from HK\$1,350 million a year earlier, mainly due to the increase in HIBOR during the year. The average cost of debt increased to 3.2% during the year, as compared to 3.0% 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 year ended December 31, 2019 was HK\$1,037 million, as compared to HK\$1,010 million a year earlier. The increase in income tax expense was mainly due to higher operating profit during the year. The effective tax rate for the year was 16.5%, as compared to 17.3% a year earlier.

## **Non-controlling Interests**

Non-controlling interests of HK\$20 million (2018: HK\$17 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 year ended December 31, 2019 increased by 8% to HK\$5,217 million (2018: HK\$4,825 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.

In September 2019, HKT took advantage of a favorable market window and raised US\$500 million 10-year guaranteed notes at a coupon of 3.25%. The proceeds were used for general corporate purposes including the repayment of existing indebtedness. HKT's gross debt<sup>6</sup> was HK\$40,713 million as at December 31, 2019 (December 31, 2018: HK\$40,387 million). Cash and short-term deposits totaled HK\$2,903 million as at December 31, 2019 (December 31, 2018: HK\$3,057 million). HKT's gross debt<sup>6</sup> to total assets was 41% as at December 31, 2019 (December 31, 2018: 41%).

As at December 31, 2019, HKT had ample liquidity as evidenced by committed banking facilities totaling HK\$28,348 million, of which HK\$9,190 million remained undrawn.

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

As at December 31, 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 year ended December 31, 2019 was HK\$2,702 million (2018: HK\$2,588 million). Capital expenditure relative to revenue was 8.2% for the year ended December 31, 2019 (2018: 7.4%).

Capital expenditure for the Mobile business remained steady in 2019 with spending focused on critical infrastructure enhancements, network capacity expansion and preparation for 5G rollout. Capital expenditure for the TSS business increased during the year, mainly due to the investment in the Ultra Express Link, a submarine cable connecting Tseung Kwan O Industrial Estate and Chai Wan which was launched into service in December 2019, as well as to support customized solutions for enterprises and continued demand for FTTH services.

HKT will continue to invest in building new infrastructure and emerging technologies 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% to HK\$5,329 million for the year ended December 31, 2019. This growth was driven by the expansion in EBITDA, and further efficiencies in customer acquisition and retention efforts as well as right-of-use assets which primarily relate to our retail shops. These positive factors were partially offset by increases in capital expenditures for certain undersea cable investments and fulfillment costs to serve our growing base of consumer and enterprise customers, as well as increase in net finance costs.

Due to the different timing of the receipt of tax assessments for all Hong Kong companies for the financial year ended December 31, 2018, the amount of cash tax payments in 2019 by HKT has been reduced as compared with 2018. Nevertheless, the appropriate tax payments have been estimated and included as part of the changes in working capital for the year.

The amounts presented in adjusted funds flow calculation represent the respective cash flows to the Group during the year, 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 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 December 31, 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 December 31, 2019, no assets of the Group (2018: nil) were pledged to secure loans and banking facilities of HKT.

## CONTINGENT LIABILITIES

<b>As at December 31, HK\$ million</b>	<b>2018</b>	<b>2019</b>
Performance guarantees	249	<b>740</b>
Others	64	<b>63</b>
	<b>313</b>	<b>803</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 will not materially affect the financial position of the Group.

## HUMAN RESOURCES

HKT had over 17,500 employees as at December 31, 2019 (2018: 17,200) 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.

## **FINAL DIVIDEND/DISTRIBUTION**

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 40.37 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the “Trust Deed”)), in respect of the year ended December 31, 2019 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 40.37 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units (“AGM”). An interim distribution/dividend of 30.01 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2019 was paid to holders of Share Stapled Units/shareholder of the Company in September 2019.

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 proposed final distribution will be Friday, May 15, 2020. 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, May 14, 2020 to Friday, May 15, 2020 (both days inclusive), in order to determine entitlements to the proposed final distribution. During such period, no transfer of Share Stapled Units will be effected. In order to qualify for the proposed final 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 (the “Share Stapled Units Registrar”), for registration no later than 4:30 p.m. on Wednesday, May 13, 2020. Subject to the approval of holders of Share Stapled Units at the AGM, distribution warrants will be despatched to holders of Share Stapled Units on or around Friday, May 29, 2020.

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

The record date for determining the entitlement of the holders of Share Stapled Units to attend and vote at the AGM, which is to be held on Friday, May 8, 2020, will be Monday, May 4, 2020. 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 for registration no later than 4:30 p.m. on Monday, May 4, 2020.

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

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

During the year ended December 31, 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 audited consolidated financial statements of the HKT Trust and HKT Limited for the year ended December 31, 2019 and the audited financial statements of the Trustee-Manager for the same period.

## **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 year ended December 31, 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 ANNUAL 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 annual 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, February 12, 2020

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

For the year ended December 31, 2019

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

	Note(s)	2018	2019
Revenue	2, 3	35,187	<b>33,103</b>
Cost of sales		(17,980)	<b>(15,787)</b>
General and administrative expenses		(9,991)	<b>(9,622)</b>
Other gains, net		2	<b>3</b>
Finance costs, net		(1,350)	<b>(1,372)</b>
Share of results of associates		–	<b>(33)</b>
Share of results of joint ventures		(16)	<b>(18)</b>
Profit before income tax	2, 4	5,852	<b>6,274</b>
Income tax	5	(1,010)	<b>(1,037)</b>
Profit for the year		<u>4,842</u>	<u><b>5,237</b></u>
Attributable to:			
Holders of Share Stapled Units/shares of the Company		4,825	<b>5,217</b>
Non-controlling interests		17	<b>20</b>
Profit for the year		<u>4,842</u>	<u><b>5,237</b></u>
Earnings per Share Stapled Unit/share of the Company			
Basic	7	<u>63.73 cents</u>	<u><b>68.91 cents</b></u>
Diluted	7	<u>63.71 cents</u>	<u><b>68.89 cents</b></u>

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

For the year ended December 31, 2019

(In HK\$ million)

	2018	2019
Profit for the year	4,842	<b>5,237</b>
Other comprehensive (loss)/income		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(73)	<b>(2)</b>
Cash flow hedges:		
- effective portion of changes in fair value	(137)	<b>257</b>
- transfer from equity to consolidated income statement	35	<b>152</b>
Costs of hedging	39	<b>11</b>
<b>Other comprehensive (loss)/income for the year</b>	<b>(136)</b>	<b>418</b>
<b>Total comprehensive income for the year</b>	<b>4,706</b>	<b>5,655</b>
Attributable to:		
Holders of Share Stapled Units/shares of the Company	4,689	<b>5,635</b>
Non-controlling interests	17	<b>20</b>
<b>Total comprehensive income for the year</b>	<b>4,706</b>	<b>5,655</b>



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

As at December 31, 2019

(In HK\$ million)

	Note	As at December 31, 2018	As at December 31, 2019
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		20,601	22,177
Right-of-use assets		2,808	2,436
Interests in leasehold land		227	215
Goodwill		49,805	49,814
Intangible assets		8,691	10,118
Fulfillment costs		1,336	1,342
Customer acquisition costs		632	592
Contract assets		295	346
Interests in associates		–	209
Interests in joint ventures		678	643
Financial assets at fair value through other comprehensive income		77	124
Financial assets at fair value through profit or loss		8	32
Derivative financial instruments		148	284
Deferred income tax assets		465	410
Other non-current assets		1,065	1,106
		<b>86,836</b>	<b>89,848</b>
<b>Current assets</b>			
Inventories		1,080	803
Prepayments, deposits and other current assets		2,033	1,811
Contract assets		630	576
Trade receivables, net	8	3,727	3,600
Amounts due from related companies		102	95
Financial assets at fair value through profit or loss		12	12
Derivative financial instruments		–	6
Restricted cash		88	115
Short-term deposits		523	486
Cash and cash equivalents		2,534	2,417
		<b>10,729</b>	<b>9,921</b>

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

As at December 31, 2019

(In HK\$ million)

	Note	As at December 31, 2018	As at December 31, 2019
<b>Current liabilities</b>			
Trade payables	9	(1,787)	(2,342)
Accruals and other payables		(4,771)	(3,904)
Carrier licence fee liabilities		(173)	(195)
Amount due to a fellow subsidiary		(1,675)	(2,855)
Advances from customers		(266)	(291)
Contract liabilities		(1,415)	(1,361)
Lease liabilities		(1,293)	(1,065)
Current income tax liabilities		(761)	(1,078)
		(12,141)	(13,091)
<b>Non-current liabilities</b>			
Long-term borrowings		(40,169)	(40,358)
Derivative financial instruments		(152)	(38)
Deferred income tax liabilities		(3,393)	(3,874)
Carrier licence fee liabilities		(357)	(527)
Contract liabilities		(1,010)	(1,001)
Lease liabilities		(1,900)	(1,697)
Other long-term liabilities		(849)	(1,213)
		(47,830)	(48,708)
<b>Net assets</b>		<b>37,594</b>	<b>37,970</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		8	8
Reserves		37,547	37,904
<b>Equity attributable to holders of Share Stapled</b>			
<b>Units/shares of the Company</b>		<b>37,555</b>	<b>37,912</b>
Non-controlling interests		39	58
<b>Total equity</b>		<b>37,594</b>	<b>37,970</b>

## NOTES

### 1. BASIS OF PREPARATION

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 sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2019 comprise the consolidated financial statements 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 consolidated financial statements for the year ended December 31, 2019 comprise the consolidated financial statements 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 year ended December 31, 2019 was investing in HKT Limited. Therefore, the consolidated financial results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of 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 consolidated financial statements of the HKT Trust and of the Company together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred to as the “HKT Trust and HKT Limited consolidated financial statements”.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, principal accounting policies and the related explanatory information are common to the HKT Trust and the Company.

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

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The following new or amended Hong Kong Financial Reporting Standards (the “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 the HKICPA

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

## 1. BASIS OF PREPARATION (CONTINUED)

As at December 31, 2019, the current liabilities of the Groups exceeded their current assets by HK\$3,170 million. Included in the current liabilities were current portion of contract liabilities of HK\$1,361 million recognized under HKFRS 15, which will gradually reduce over the contract terms through the satisfaction of performance obligations. 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, these consolidated financial statements have been prepared on a going concern basis.

The financial information of the Trustee-Manager relating to the years ended December 31, 2018 and 2019 included in this preliminary announcement of annual results for the year ended December 31, 2019 does not constitute the Trustee-Manager's statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Trustee-Manager's financial statements combined with the HKT Trust and HKT Limited consolidated financial statements (collectively the "Combined Financial Statements") for the year ended December 31, 2018 have been delivered to the Registrar of Companies and the Combined Financial Statements for the year ended December 31, 2019 will be delivered to the Registrar of Companies in due course.
- The Trustee-Manager's auditor has reported on the financial statements of the Trustee-Manager for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

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

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management has also made judgements in applying the Groups' accounting policies.

## 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 year ended December 31, 2018

(In HK\$ million)

	TSS	Mobile	Other Businesses	Eliminations	Consolidated
<b>REVENUE</b>					
External revenue	21,128	13,825	234	–	35,187
Inter-segment revenue	646	184	6	(836)	–
Total revenue	21,774	14,009	240	(836)	35,187
External revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,557	5,659	206	–	7,422
Over time	19,510	8,166	27	–	27,703
External revenue from other sources:					
Rental income	61	–	1	–	62
	21,128	13,825	234	–	35,187
<b>RESULTS</b>					
EBITDA	8,204	4,959	(605)	–	12,558

For the year ended December 31, 2019

(In HK\$ million)

	TSS	Mobile	Other Businesses	Eliminations	Consolidated
<b>REVENUE</b>					
External revenue	21,265	11,612	226	–	33,103
Inter-segment revenue	688	202	10	(900)	–
Total revenue	21,953	11,814	236	(900)	33,103
External revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	2,324	3,306	72	–	5,702
Over time	18,874	8,306	154	–	27,334
External revenue from other sources:					
Rental income	67	–	–	–	67
	21,265	11,612	226	–	33,103
<b>RESULTS</b>					
EBITDA	8,360	5,068	(611)	–	12,817

## 2. SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	2018	2019
Total segment EBITDA	12,558	<b>12,817</b>
Gain/(loss) on disposal of property, plant and equipment, net	1	<b>(2)</b>
Depreciation and amortization	(5,343)	<b>(5,121)</b>
Other gains, net	2	<b>3</b>
Finance costs, net	(1,350)	<b>(1,372)</b>
Share of results of associates	–	<b>(33)</b>
Share of results of joint ventures	(16)	<b>(18)</b>
Profit before income tax	5,852	<b>6,274</b>

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

In HK\$ million	2018	2019
Hong Kong (place of domicile)	29,740	<b>28,201</b>
Mainland and other parts of China	510	<b>544</b>
Others	4,937	<b>4,358</b>
	35,187	<b>33,103</b>

The total of non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK\$85,692 million as at December 31, 2019 (2018: HK\$82,869 million). The total of these non-current assets located in other countries was HK\$2,909 million as at December 31, 2019 (2018: HK\$2,896 million).

### 3. REVENUE

In HK\$ million	2018	2019
Revenue from contracts with customers	35,125	<b>33,036</b>
Revenue from other sources: rental income	62	<b>67</b>
	<b>35,187</b>	<b>33,103</b>

#### a. Revenue recognition in relation to contract liabilities

In HK\$ million	2018	2019
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,288	<b>1,415</b>

#### b. Unsatisfied long-term fixed-price contracts

In HK\$ million	2018	2019
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31,	16,377	<b>16,658</b>

As at December 31, 2019, management expected that 60% and 25% (2018: 63% and 23%) of the transaction price allocated to the unsatisfied long-term fixed-price contracts would be recognized as revenue during the first and second year respectively after the end of the reporting period. The remaining 15% (2018: 14%) would be recognized as revenue in the periods afterwards. The amount disclosed above does not include unsatisfied performance obligation that is related to the Groups' contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

### 4. PROFIT BEFORE INCOME TAX

Profit before income tax was stated after charging the following:

In HK\$ million	2018	2019
Cost of inventories sold	7,960	<b>5,469</b>
Cost of sales, excluding inventories sold	10,020	<b>10,318</b>
Depreciation of property, plant and equipment	1,324	<b>1,150</b>
Depreciation of right-of-use assets – land and buildings	1,262	<b>1,259</b>
Depreciation of right-of-use assets – network capacity and equipment	289	<b>234</b>
Amortization of land lease premium – interests in leasehold land	13	<b>12</b>
Amortization of intangible assets	1,186	<b>1,126</b>
Amortization of fulfillment costs	417	<b>489</b>
Amortization of customer acquisition costs	852	<b>851</b>



## 5. INCOME TAX

In HK\$ million	2018	2019
Hong Kong profits tax	596	475
Overseas tax	7	26
Movement of deferred income tax	407	536
	<b>1,010</b>	<b>1,037</b>

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

## 6. DISTRIBUTIONS/DIVIDENDS

In HK\$ million	2018	2019
Interim distribution/dividend declared and paid in respect of the current year of 30.01 HK cents (2018: 29.12 HK cents) per Share Stapled Unit/ordinary share of the Company	2,205	2,272
Final distribution/dividend declared in respect of the previous financial year, approved and paid during the year of 39.17 HK cents (2018: 36.75 HK cents) per Share Stapled Unit/ordinary share of the Company	2,783	2,966
	<b>4,988</b>	<b>5,238</b>

For the year ended December 31, 2019, the Company proposed a final dividend of 40.37 HK cents per ordinary share, totaling HK\$3,057 million (2018: 39.17 HK cents per ordinary share, totaling HK\$2,966 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2019, HKT Trust proposed a final distribution of 40.37 HK cents per Share Stapled Unit, totaling HK\$3,057 million (2018: 39.17 HK cents per Share Stapled Unit, totaling HK\$2,966 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, is not recognized as a liability as at the end of the reporting period.

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

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

	2018	2019
<b>Earnings (in HK\$ million)</b>		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	4,825	5,217
<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	7,571,742,334
Effect of Share Stapled Units held under the Company's Share Stapled Units award schemes	(372,000)	(642,588)
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	7,571,370,334	7,571,099,746
Effect of Share Stapled Units awarded under the Company's Share Stapled Units award schemes	2,364,723	1,775,583
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	7,573,735,057	7,572,875,329

## 8. TRADE RECEIVABLES, NET

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

In HK\$ million	2018	2019
1 – 30 days	2,889	<b>2,594</b>
31 – 60 days	288	<b>346</b>
61 – 90 days	155	<b>272</b>
91 – 120 days	99	<b>98</b>
Over 120 days	431	<b>433</b>
	3,862	<b>3,743</b>
Less: loss allowance	(135)	<b>(143)</b>
	<b>3,727</b>	<b>3,600</b>

As at December 31, 2019, included in trade receivables, net were amounts due from related parties of HK\$36 million (2018: HK\$47 million).

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.

## 9. TRADE PAYABLES

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

In HK\$ million	2018	2019
1 – 30 days	1,205	<b>1,269</b>
31 – 60 days	121	<b>556</b>
61 – 90 days	53	<b>100</b>
91 – 120 days	22	<b>31</b>
Over 120 days	386	<b>386</b>
	1,787	<b>2,342</b>

As at December 31, 2019, included in trade payables were amounts due to related parties of HK\$12 million (2018: HK\$32 million).

**AUDITED INCOME STATEMENT OF  
HKT MANAGEMENT LIMITED**

For the year ended December 31, 2019

In HK\$'000	2018	2019
Management fee income	54	<b>54</b>
General and administrative expenses	(54)	<b>(54)</b>
Result before income tax	–	–
Income tax	–	–
Result for the year	–	–

**AUDITED STATEMENT OF COMPREHENSIVE INCOME OF  
HKT MANAGEMENT LIMITED**

For the year ended December 31, 2019

In HK\$'000	2018	2019
Result for the year	–	–
Other comprehensive income	–	–
Total comprehensive income for the year	–	–

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

As at December 31, 2019

In HK\$'000	2018	2019
<b>ASSETS AND LIABILITIES</b>		
<b>Current assets</b>		
Amount due from a fellow subsidiary	330	<b>384</b>
	330	<b>384</b>
<b>Current liabilities</b>		
Accruals and other payables	(51)	<b>(52)</b>
Amounts due to fellow subsidiaries	(279)	<b>(332)</b>
	(330)	<b>(384)</b>
<b>Net assets</b>	<b>—</b>	<b>—</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	—	—
Reserves	—	—
<b>Total equity</b>	<b>—</b>	<b>—</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 Keping 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, earnings and prospects. 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.