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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, 2021

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, 2021.

- Total revenue increased by 5% to HK\$33,961 million, reflecting continued strong demand for fixed broadband services, the broader 5G adoption by both consumers and enterprises and robust handset sales
- Total EBITDA increased by 2% to HK\$12,733 million; increased by 5% if adjusted for impact of Employment Support Scheme (“ESS”) in 2020
- Adjusted Funds Flow increased by 2.4% to HK\$5,513 million
- Reflecting the breadth and scale of our diversified business portfolio, resilient demand for our core services while improvements on operational efficiencies continued
- Profit before income tax, excluding other gains/losses, net, was stable at HK\$5,827 million
- Profit attributable to holders of Share Stapled Units amounted to HK\$4,808 million; basic earnings per Share Stapled Unit was 63.49 HK cents
- Final distribution per Share Stapled Unit is 42.07 HK cents, resulting in a total distribution of 72.77 HK cents representing the full payout of Adjusted Funds Flow per Share Stapled Unit for the year

MANAGEMENT REVIEW

We are pleased to announce that HKT recorded solid results and a steady rise in adjusted funds flow for the year ended December 31, 2021 as the second half of the year was buoyed by government economic stimulus, a stabilized COVID situation and a resumption of economic activities.

With demand for fast and reliable connectivity remaining strong, the Telecommunications Services (“TSS”) benefited on the back of its well-established and resilient network as well as its enterprise focused services. The consumer broadband business witnessed an expansion in its subscriber base with further subscriptions to its fiber-to-the-home (“FTTH”) services and take-up of Home Wi-Fi solutions lifting average revenue per user (“ARPU”). The enterprise segment demonstrated robust growth as enterprise customers accelerated their digital transformation during the year. As a result, the local data services business registered 4% growth in revenue during the year. The International Telecommunications Services business was impacted by a moderation in wholesale voice revenue and the absence of lumpy one-off cable revenues from the prior year. Consequently, total TSS revenue edged down by 2% to HK\$21,812 million. However, after excluding the International Telecommunications Services business, revenue from our local TSS business increased by 1% year-on-year. Total TSS EBITDA increased by 1% to HK\$8,468 million with the margin improving to 39%, reflecting the shift in revenue mix towards local data services and productivity improvements achieved during the year.

The Mobile business recorded healthy 13% growth in total revenue to HK\$11,748 million during the year. The 2% growth in local core revenue reflected the ARPU uplift from new subscriptions and upgrades to our 5G plans as well as a continued expansion in our customer base. Roaming overhang persisted due to the strict travel conditions in Hong Kong which partially offset the local revenue growth resulting in Mobile services revenue growth of 1%. Mobile product sales returned to more than pre-pandemic levels reflecting consumer upgrades to new 5G handset models amid improved sentiment stimulated by the Government’s Consumption Voucher Scheme. EBITDA from the Mobile segment increased by 1% to HK\$4,780 million during the year, in line with growth in Mobile services revenue.

The Pay TV business, which included the first full-year contribution from Now TV, generated revenue of HK\$2,456 million and EBITDA of HK\$481 million for the year ended December 31, 2021. Despite rising competition from direct-to-consumer (“D2C”) over-the-top (“OTT”) players, Now TV delivered resilient business performance due to its unrivalled sports content offering, growing subscriptions on its Now E streaming service and healthy growth in advertising revenue. Pro-forma EBITDA grew by 6% during the year, aided by savings in content costs and the benefits accruing from HKT’s quadplay platform.

As a result, HKT’s total revenue for the year increased by 5% to HK\$33,961 million and total EBITDA increased by 2% to HK\$12,733 million. Total EBITDA increased by 5% if adjusted for the impact of ESS in 2020.

Profit attributable to holders of share stapled units of the HKT Trust and HKT (“Share Stapled Units”) was HK\$4,808 million for the year. This was impacted by the absence of one-time other gains recorded in 2020 and higher depreciation and amortization expenses from the Now TV integration and re-assignment of mobile spectrum. Basic earnings per Share Stapled Unit was 63.49 HK cents.

Adjusted funds flow for the year ended December 31, 2021 rose to HK\$5,513 million, an increase of 2.4% over the previous year. Annual adjusted funds flow per Share Stapled Unit was 72.77 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 42.07 HK cents per Share Stapled Unit for the year ended December 31, 2021. This brings the 2021 full-year distribution to 72.77 HK cents per Share Stapled Unit (comprising 30.70 HK cents as interim distribution and 42.07 HK cents as final distribution) representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

OUTLOOK

Just as Hong Kong was gradually pulling itself out of the economic quagmire, the Omicron variant strain has thrown a spanner in the works. As before, HKT will continue to exercise vigilance against escalation of the pandemic situation and respond appropriately to protect our employees and customers while ensuring business continuity and our quality services.

Looking ahead, HKT will continue to maximize the synergy of our quadplay businesses and leverage the group assets of PCCW Limited to establish new competitive edges to bolster our market-leading fiber broadband, mobile and pay-TV businesses, all of which turned in a robust performance last year despite the challenging market conditions.

With increasing consumer uptake, we will be able to further unlock the value of our 5G network and realize ARPU uplift through the development of augmented reality (“AR”) and virtual reality (“VR”) applications and content as part of our foray into the metaverse.

As a technological innovator in full support of Hong Kong’s aspiration to become a smart city, HKT is also committed to helping enterprises and public bodies navigate their digital transformation journeys. Farther afield, we are constantly on the lookout for opportunities to contribute to the development of the Greater Bay Area.

Under the new normal, consumers are increasingly gravitating toward all things digital. HKT will continue to nurture its digital ecosystem, integrating its loyalty program and a host of online services meeting customers’ health, banking, and other needs.

On November 29, 2021, HKT celebrated the 10th anniversary of its Hong Kong stock exchange listing. The numerous milestones achieved by the Company in the past decade have been a collective effort of our staff, business partners, customers, and other supporters, for which we are truly grateful. Such collaborative efforts form a part of HKT’s DNA, driving our energy and progress to give us a competitive advantage.

Having laid a solid foundation, HKT is poised for further growth when the economy regains its footing, as we are well placed to transform Hong Kong and the public’s way of living with even more game-changing products and services.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Revenue							
TSS	10,386	11,971	22,357	10,243	11,569	21,812	(2)%
- Local TSS Services	6,622	8,091	14,713	6,926	7,880	14,806	1%
- International Telecommunications Services	3,764	3,880	7,644	3,317	3,689	7,006	(8)%
Mobile	4,543	5,823	10,366	5,108	6,640	11,748	13%
- Mobile Services	3,573	4,184	7,757	3,577	4,241	7,818	1%
- Mobile Product Sales	970	1,639	2,609	1,531	2,399	3,930	51%
Pay TV	–	647	647	1,231	1,225	2,456	280%
Other Businesses	155	210	365	408	464	872	139%
Eliminations	(478)	(868)	(1,346)	(1,347)	(1,580)	(2,927)	(117)%
Total revenue	14,606	17,783	32,389	15,643	18,318	33,961	5%
Total revenue (excluding Mobile Product Sales)	13,636	16,144	29,780	14,112	15,919	30,031	1%
Cost of sales	(6,941)	(8,762)	(15,703)	(7,550)	(9,179)	(16,729)	(7)%
Operating costs before depreciation, amortization, and gains on disposal of property, plant and equipment and right-of-use assets, net	(2,119)	(2,040)	(4,159)	(2,378)	(2,121)	(4,499)	(8)%
EBITDA¹							
TSS	3,801	4,611	8,412	3,824	4,644	8,468	1%
Mobile	2,050	2,697	4,747	2,072	2,708	4,780	1%
- Mobile Services	2,057	2,639	4,696	2,058	2,643	4,701	–
- Mobile Product Sales	(7)	58	51	14	65	79	55%
Pay TV	–	174	174	212	269	481	176%
Other Businesses	(305)	(501)	(806)	(393)	(603)	(996)	(24)%
Total EBITDA¹	5,546	6,981	12,527	5,715	7,018	12,733	2%
TSS EBITDA¹ Margin	37%	39%	38%	37%	40%	39%	
Mobile EBITDA¹ Margin	45%	46%	46%	41%	41%	41%	
- Mobile Services EBITDA ¹ Margin	58%	63%	61%	58%	62%	60%	
Pay TV EBITDA¹ Margin	–	27%	27%	17%	22%	20%	
Total EBITDA¹ Margin	38%	39%	39%	37%	38%	37%	
Total EBITDA¹ Margin (excluding Mobile Product Sales)	41%	43%	42%	40%	44%	42%	
Depreciation and amortization	(2,491)	(2,850)	(5,341)	(2,751)	(2,901)	(5,652)	(6)%
Gains on disposal of property, plant and equipment and right-of-use assets, net	2	–	2	2	22	24	>500%
Other (losses)/gains, net	(50)	411	361	–	(8)	(8)	NA
Finance costs, net	(658)	(638)	(1,296)	(561)	(587)	(1,148)	11%
Share of results of associates and joint ventures	(30)	(49)	(79)	(63)	(67)	(130)	(65)%
Profit before income tax	2,319	3,855	6,174	2,342	3,477	5,819	(6)%
Profit before income tax (excluding other (losses)/gains, net)	2,369	3,444	5,813	2,342	3,485	5,827	–

ADJUSTED FUNDS FLOW³

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Total EBITDA¹	5,546	6,981	12,527	5,715	7,018	12,733	2%
Less cash outflows in respect of capital expenditures, customer acquisition costs and licence fees ² :							
Capital expenditures	(1,169)	(1,208)	(2,377)	(1,170)	(1,208)	(2,378)	–
Customer acquisition costs and licence fees	(411)	(921)	(1,332)	(534)	(1,166)	(1,700)	(28)%
Fulfillment costs	(289)	(228)	(517)	(227)	(260)	(487)	6%
Right-of-use assets	(764)	(826)	(1,590)	(809)	(815)	(1,624)	(2)%
Adjusted funds flow³ before tax paid, net finance costs paid and changes in working capital	2,913	3,798	6,711	2,975	3,569	6,544	(2)%
Adjusted for:							
Net finance costs paid	(378)	(372)	(750)	(281)	(319)	(600)	20%
Tax payment	(149)	(367)	(516)	(180)	(194)	(374)	28%
Changes in working capital	(106)	45	(61)	(188)	131	(57)	7%
Adjusted funds flow³	2,280	3,104	5,384	2,326	3,187	5,513	2.4%
Annual adjusted funds flow per Share Stapled Unit (HK cents)⁴			71.07			72.77	

KEY OPERATING DRIVERS⁵

	2020		2021		Better/ (Worse) y-o-y
	H1	H2	H1	H2	
Exchange lines in service ('000)	2,564	2,522	2,486	2,443	(3)%
Business lines ('000)	1,227	1,212	1,206	1,195	(1)%
Residential lines ('000)	1,337	1,310	1,280	1,248	(5)%
Total broadband access lines ('000) (Consumer, business and wholesale)	1,622	1,627	1,634	1,637	1%
Retail consumer broadband access lines ('000)	1,454	1,457	1,464	1,461	0.3%
Retail business broadband access lines ('000)	157	160	161	163	2%
Mobile subscribers ('000)	4,372	4,605	4,477	4,770	4%
Post-paid subscribers ('000)	3,250	3,252	3,263	3,297	1%
Prepaid subscribers ('000)	1,122	1,353	1,214	1,473	9%
Pay TV installed base ('000)	–	1,348	1,352	1,373	2%
The Club members ('000)	3,043	3,178	3,293	3,541	11%
Tap & Go accounts in service ('000)	2,629	2,744	3,003	3,603	31%

- Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gains/losses 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	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
TSS Revenue							
Local TSS Services	6,622	8,091	14,713	6,926	7,880	14,806	1%
- Local Data Services	3,696	4,521	8,217	3,877	4,683	8,560	4%
- Local Telephony Services	1,532	1,552	3,084	1,449	1,377	2,826	(8)%
- Other Services	1,394	2,018	3,412	1,600	1,820	3,420	–
International Telecommunications Services	3,764	3,880	7,644	3,317	3,689	7,006	(8)%
Total TSS Revenue	10,386	11,971	22,357	10,243	11,569	21,812	(2)%
Cost of sales	(5,346)	(6,539)	(11,885)	(5,305)	(6,149)	(11,454)	4%
Operating costs before depreciation and amortization	(1,239)	(821)	(2,060)	(1,114)	(776)	(1,890)	8%
Total TSS EBITDA¹	3,801	4,611	8,412	3,824	4,644	8,468	1%
TSS EBITDA¹ margin	37%	39%	38%	37%	40%	39%	

Local TSS revenue grew by 1% to HK\$14,806 million for the year ended December 31, 2021 underpinned by an increase of 4% in Local Data Services revenue to HK\$8,560 million, a revenue base now representing 58% of the Local TSS Services segment. Local Telephony Services generated HK\$2,826 million in revenue reflecting the continued industry shift away from traditional voice towards broadband and mobile services. Revenue from International Telecommunications Services came in at HK\$7,006 million during the year. As a result, total TSS revenue edged down 2% to HK\$21,812 million.

Local Data Services. Comprising broadband network revenue and local data revenue, Local Data Services revenue rose by 4% to HK\$8,560 million for the year ended December 31, 2021.

The Broadband Network business recorded revenue growth for the 14th successive year, with revenue increasing by 2%. The business continued to benefit from the superior quality and reliability of HKT's fiber network and the success of our three-pronged strategy. This strategy encompasses the targeted marketing of our leading FTTH service through the brands of "HKT Premier", "NETVIGATOR" and "LiKE100" with our diverse range of value added services. With home entertainment, online learning and remote work arrangements being the norm, demand for fast and reliable broadband connectivity and Home Wi-Fi solutions remained strong during the year.

Despite fierce price competition and elevated line terminations due to households relocating overseas, the business achieved an overall net gain in broadband customers during the year, with total broadband access lines growing by 1% to 1.637 million as at the end of December 2021. Of these, 944,000 were FTTH connections which represented a net increase of 52,000 or 6% growth from a year earlier. Penetration of our Home Wi-Fi solutions also continued to rise steadily, which helped lift overall ARPU. During the year, a total of 333,000 customers subscribed to our Home Wi-Fi solutions, up 8% compared to the previous year and representing 23% of the consumer broadband base.

Telecommunications Services (Continued)

The enterprise segment delivered robust growth momentum during the year as enterprise customers accelerated their digital transformation, recognizing the urgency and necessity of adopting digital solutions which has been amplified by the pandemic. This drove demand for our wide range of fixed-mobile converged solutions that now incorporate not only 5G but also artificial intelligence, Internet of Things and other new, emerging technologies. As a result, local data revenue recorded substantial growth of 8% for the year ended December 31, 2021.

Local Telephony Services. Local Telephony Services revenue was HK\$2,826 million for the year ended December 31, 2021 versus HK\$3,084 million a year earlier. This result reflected the continued migration of residential fixed-line customers to our broadband and mobile services, coupled with increased fixed-line terminations due to household relocations, as well as continued softness in the small and medium-sized enterprise segment during the year. As such, the total number of fixed lines in service at the end of December 2021 was 2.443 million, compared to 2.522 million a year earlier.

Other Services. Other Services revenue comes mainly from the sale of network equipment and customer premises equipment and the provision of technical and maintenance subcontracting services and contact center services (“Teleservices”). Other services revenue for the year ended December 31, 2021 remained steady at HK\$3,420 million.

International Telecommunications Services. International Telecommunications Services revenue was HK\$7,006 million for the year ended December 31, 2021 versus HK\$7,644 million a year earlier. The pullback primarily stemmed from the global wholesale voice business which was affected by the curtailment of international travel and a shift in voice traffic to digital platforms as well as the absence of lumpy one-off cable revenues that occurred in 2020. However, wholesale voice is a relatively thin margin business. As cloud computing adoption continues to spread globally, demand for cloud interconnectivity services offered through our Console Connect platform grew. To support this growth, Console Connect has extended its reach and, as of the end of December 2021, allowed users to instantly reach almost 600 data centers and 150 cloud zones globally on an on-demand basis.

The TSS business registered an increase in EBITDA of 1% to HK\$8,468 million with the EBITDA margin increasing to 39%, primarily due to the shift in revenue mix towards Local Data Services and further operating efficiencies amid an ongoing focus on cost initiatives during the year.

Mobile

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Mobile Revenue							
Mobile Services	3,573	4,184	7,757	3,577	4,241	7,818	1%
Mobile Product Sales	970	1,639	2,609	1,531	2,399	3,930	51%
Total Mobile Revenue	4,543	5,823	10,366	5,108	6,640	11,748	13%
Mobile EBITDA¹							
Mobile Services	2,057	2,639	4,696	2,058	2,643	4,701	–
Mobile Product Sales	(7)	58	51	14	65	79	55%
Total Mobile EBITDA¹	2,050	2,697	4,747	2,072	2,708	4,780	1%
Mobile EBITDA¹ margin	45%	46%	46%	41%	41%	41%	
<i>Mobile Services EBITDA¹ margin</i>	<i>58%</i>	<i>63%</i>	<i>61%</i>	<i>58%</i>	<i>62%</i>	<i>60%</i>	

The Mobile business recorded a healthy 13% growth in revenue to HK\$11,748 million for the year ended December 31, 2021.

Mobile services revenue rose by 1% to HK\$7,818 million, as the 2% growth in local core revenue more than offset the overhang of moderated roaming and IDD revenue resulting from extended travel restrictions. The expansion in local core revenue benefited from the ARPU uplift from new subscriptions and upgrades to our 5G plans alongside growth in our overall customer base.

Mobile product sales increased by 51% to HK\$3,930 million reflecting consumer upgrades to new 5G handset models amid improved sentiment and increased spending stimulated by the Government's Consumption Voucher Scheme. Revenue growth was also aided by our digital platform, Club Shopping, which provides customers with a convenient service through our "redeem and shop" offerings that also helps to build customer loyalty.

Despite intense market competition, the Mobile business continued to report a net gain in post-paid customers to 3.297 million in 2021, representing net additions of 45,000 or 1% growth during the year. By leveraging The Club to deepen customer engagement and loyalty, the churn rate for post-paid customers reached an all-time low of 0.7% in 2021.

In November 2021, the Mobile business launched a unique and innovative digital campaign "csl. 5G x MIRROR" which incorporated AR technology. Receiving an overwhelming response, the campaign has helped to further drive subscriptions to our 5G plans. As at the end of December 2021, our 5G customer base was 680,000. By January 2022, this had increased further to 756,000 customers representing 23% of our post-paid base as subscribers were pulled in by our first to market 5G celebrity premium plans. The post-paid exit ARPU as at December 31, 2021 rebounded by 2% to HK\$187 versus HK\$184 as at December 31, 2020, primarily driven by the 5G service plan uplift.

Mobile services EBITDA for the year was steady at HK\$4,701 million with a margin of 60% reflecting continuing discipline in operating expenditure and optimization of offline-to-online sales channels. Total Mobile EBITDA for the year increased by 1% to HK\$4,780 million from HK\$4,747 million a year earlier supported by the healthy growth in Mobile product sales.

Pay TV

The Pay TV business, which included the first full-year contribution from Now TV, recorded revenue of HK\$2,456 million for the year ended December 31, 2021. Despite rising competition from global D2C OTT players, Now TV delivered a resilient business performance with a significant increase of 56% in pro-forma revenue from its Now E streaming service and growth of 17% in pro-forma advertising revenue during the year.

By the end of December 2021, Now TV's installed base grew by 2% to 1.373 million, compared to 1.348 million at the end of December 2020. This performance reflected our unrivalled sports content offering including the exclusive broadcast of UEFA EURO 2020™ and Tokyo 2020 Olympics in 2021. Take-up of our Now E streaming service continued to perform well with its unique content proposition and flexible subscription plans. It is particularly popular among the millennial segment, which is more accustomed to non-linear entertainment consumption.

Now TV strives to bring world-class sporting events to the Hong Kong market. It offers the widest range of football programming in Hong Kong with broadcasts of the Premier League ("PL"), UEFA Champions League, Europa League, La Liga, Serie A and Ligue 1. During 2021, Now TV secured the broadcast rights for key sporting content including the Formula One, UFC, Tennis Grand Slams and Moto GP, and recently renewed its exclusive PL broadcast rights for another three seasons. Moreover, new interactive features for live football matches such as Multi-Angle, Watch Party and Third Audio were also launched to enhance customer enjoyment and deepen customer engagement.

Apart from sports, Now TV is enhancing the breadth and depth of self-curated content by offering award-winning documentaries and inspiring true stories on Now True and a range of Western and Chinese dramas for Now Studio video-on-demand ("VOD") services. Our wide range of VOD libraries currently cover movie, drama, documentary, variety show, kids and infotainment etc. with over 30,000 hours of on demand, compelling content.

Now TV has recently strengthened its offerings in the educational segment by launching a cross TV and online tutoring service that offers digital learning packages for junior secondary students.

EBITDA for the year ended December 31, 2021 amounted to HK\$481 million, representing a margin of 20%. Pro-forma EBITDA grew by 6% during the year, aided by strenuous efforts to rationalize content costs and the benefits accruing from HKT's quadplay platform.

Other Businesses

Primarily comprising new business areas such as The Club and HKT Financial Services, as well as corporate support functions, Other Businesses recorded a substantial revenue growth of 139% to HK\$872 million for the year ended December 31, 2021 versus HK\$365 million a year earlier, primarily driven by the strong performance of Club Shopping.

The Club's membership base further expanded by 11% to 3.54 million as of December 31, 2021 versus 3.18 million a year earlier. During the year, The Club succeeded not only in attracting new members but also in deepening engagement with members as the full convergence of multiple online businesses into a single online platform enhanced the customer experience and drove traffic and transactions with rewards. As a result, gross merchandise value ("GMV") on Club Shopping more than doubled from a year ago.

In the second half of 2021, Tap & Go assisted the Government in disbursing consumption vouchers to help invigorate the local economy and promote electronic payment methods in Hong Kong. As such, Tap & Go recorded a significant growth in both consumer and merchant users, together with substantial increases year-on-year in both online and physical store transaction volumes. As at December 31, 2021, Tap & Go had over 3.60 million accounts in service, an increase of 31% from 2.74 million a year earlier.

Eliminations

Eliminations were HK\$2,927 million for the year ended December 31, 2021 versus HK\$1,346 million a year earlier, reflecting the increased collaboration across all of HKT's business segments and the full-year impact of the integration of Now TV business with HKT.

Cost of Sales

Cost of sales for the year ended December 31, 2021 increased by 7% to HK\$16,729 million, reflecting the costs associated with higher Mobile product sales and the full-year impact of the integration of Now TV business during the year.

General and Administrative Expenses

For the year ended December 31, 2021, the Group achieved savings of 9% in operating costs before depreciation, amortization, and gains on disposal of property, plant and equipment and right-of-use assets, net ("operating costs") for the TSS and Mobile businesses due to the continuous focus on operating efficiency through digitalizing business processes as well as optimizing offline-to-online sales channels and retail footprint. These savings were reinvested in new businesses including The Club, Tap & Go and DrGo to support their growth momentum. Nevertheless, operating costs excluding the Pay TV business remained flat during the year. After taking into account the full-year impact of the integration of Now TV business, total operating costs for the year increased by 8% to HK\$4,499 million, and the operating costs-to-revenue ratio was 13.2% versus 12.8% a year earlier.

Depreciation expenses increased by 4% and amortization expenses increased by 7% during the year, largely due to the full-year impact of the integration of Now TV business and an increase in the amortization of the 900MHz and 1800MHz mobile spectrum licenses arising from the reassignment in 2021. As such, total depreciation and amortization expenses increased by 6% to HK\$5,652 million for the year ended December 31, 2021.

As a result of the above, general and administrative expenses increased by 7% to HK\$10,127 million for the year ended December 31, 2021 versus HK\$9,498 million a year earlier.

EBITDA¹

Total EBITDA increased by 2% to HK\$12,733 million for the year ended December 31, 2021 versus HK\$12,527 million a year earlier. The overall EBITDA margin was 37% in 2021 versus 39% a year earlier, primarily due to the increased share of revenue contributed by Mobile product sales. Excluding Mobile product sales, the EBITDA margin held steady at 42% for the year.

Finance Costs, Net

Net finance costs for the year ended December 31, 2021 decreased by 11% to HK\$1,148 million from HK\$1,296 million a year earlier, mainly due to a lower prevailing HIBOR during the year. The average cost of debt decreased to 2.4% during the year, compared to 2.9% 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, 2021 was HK\$997 million, as compared to HK\$855 million a year earlier. The effective tax rate for the year was 17.1%, compared to 13.8% a year earlier. The lower effective tax rate in 2020 was mainly due to certain non-taxable one-off capital gains and credits.

Non-controlling Interests

Non-controlling interests of HK\$14 million (2020: HK\$16 million) mainly comprised the net profit attributable to the non-controlling 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, 2021 was HK\$4,808 million (2020: HK\$5,303 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 debt⁶ was HK\$43,886 million as at December 31, 2021 (December 31, 2020: HK\$42,493 million). Cash and short-term deposits totaled HK\$2,883 million as at December 31, 2021 (December 31, 2020: HK\$2,630 million). HKT's gross debt⁶ to total assets was 40% as at December 31, 2021 (December 31, 2020: 41%).

As at December 31, 2021, HKT had ample liquidity as evidenced by banking facilities totaling HK\$32,209 million, of which HK\$9,878 million remained undrawn.

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2021, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and S&P Global Ratings (BBB).

CAPITAL EXPENDITURE²

Capital expenditure including capitalized interest for the year ended December 31, 2021 was HK\$2,458 million (2020: HK\$2,437 million). Capital expenditure relative to revenue was 7.2% for the year ended December 31, 2021 (2020: 7.5%).

Capital expenditure for HKT's Mobile business was steady in 2021 with spending focused on our 5G network expansion and enrichment. TSS capital expenditure dropped during the year, in line with the capital expenditure cycle of our extensive local fiber network and international cable systems. Overall capital expenditure increased slightly by 1% during the year due to the full-year impact of the integration of Now TV business with HKT.

HKT will continue to invest in building digital capabilities to support its existing businesses and enable its growth in new areas, and prudently invest in expanding its 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 FLOW³

Adjusted funds flow increased by 2.4% to HK\$5,513 million for the year ended December 31, 2021 from HK\$5,384 million for the year ended December 31, 2020. Growth was driven by the 2% expansion in EBITDA, disciplined capex investments and lower fulfillment costs. There was also a 20% reduction in net finance costs paid and lower tax payment during the year. These positive factors were partially offset by the higher customer acquisition costs and right-of-use asset payments associated with the full-year impact of the integration of Now TV business, and higher licence fees arising from the re-assignment of mobile spectrum in 2021.

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 financing. 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 the 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.

A significant portion of HKT's financing 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, 2021, all forward and swap contracts were designated as cash flow hedges for the related financing 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, 2021, no assets of the Group (2020: nil) were pledged to secure loans and banking facilities of HKT.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2020	2021
Performance guarantees	955	994
Others	18	2
	973	996

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 15,400 employees as at December 31, 2021 (2020: 16,300) located in 21 countries and cities. About 67% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the United States. 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 42.07 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, 2021 (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 42.07 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 30.70 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2021 was paid to holders of Share Stapled Units/shareholder of the Company in September 2021.

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 20, 2022. 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 19, 2022 to Friday, May 20, 2022 (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 18, 2022. 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 Tuesday, May 31, 2022.

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 13, 2022, will be Friday, May 6, 2022. 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 Friday, May 6, 2022.

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, 2021, 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, 2021 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 applicable 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, 2021, 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. The appointment of company secretary during the year was considered and approved at a meeting of the executive committee (in accordance with delegated board authority and the outcome of which was reported to the directors), rather than at a physical meeting of the board as required under code provision F.1.2 of the CG Code. Accordingly, the requirement under code provision F.1.2 of the CG Code to approve this matter by physical board meeting has not been strictly complied with. However, the directors of the Trustee-Manager and the directors of the Company considered that the approval process was appropriate and efficient.

Having regard to the mandatory global travel restrictions in connection with the COVID-19 pandemic, certain directors of the Trustee-Manager and the Company participated in the combined annual general meeting of unitholders of the HKT Trust and of shareholders of the Company on May 7, 2021 by video/audio conferencing, and such directors, including the chairpersons of the board committees, were available to answer questions at the meeting pursuant to code provision E.1.2 of the CG Code.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2021 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
Cheung Hok Chee, Vanessa
Group General Counsel and Company Secretary

Hong Kong, February 24, 2022

AUDITED CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2021

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

	Note(s)	2020	2021
Revenue	2, 3	32,389	33,961
Cost of sales		(15,703)	(16,729)
General and administrative expenses		(9,498)	(10,127)
Other gains/(losses), net	4	361	(8)
Finance costs, net		(1,296)	(1,148)
Share of results of associates		(68)	(115)
Share of results of joint ventures		(11)	(15)
<hr/>			
Profit before income tax	2, 5	6,174	5,819
Income tax	6	(855)	(997)
<hr/>			
Profit for the year		5,319	4,822
<hr/>			
Profit attributable to:			
Holders of Share Stapled Units/shares of the Company		5,303	4,808
Non-controlling interests		16	14
<hr/>			
Profit for the year		5,319	4,822
<hr/>			
Earnings per Share Stapled Unit/share of the Company	8		
Basic		70.01 cents	63.49 cents
Diluted		70.00 cents	63.48 cents

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

For the year ended December 31, 2021

(In HK\$ million)

	2020	2021
Profit for the year	5,319	4,822
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	75	(38)
Reclassification of currency translation reserve on disposal of subsidiaries	5	–
Cash flow hedges:		
- effective portion of changes in fair value	(268)	(2)
- transfer from equity to consolidated income statement	(82)	8
Costs of hedging	181	(55)
Other comprehensive loss for the year	(89)	(87)
Total comprehensive income for the year	5,230	4,735
Attributable to:		
Holders of Share Stapled Units/shares of the Company	5,216	4,721
Non-controlling interests	14	14
Total comprehensive income for the year	5,230	4,735

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

As at December 31, 2021

(In HK\$ million)

	Note	As at December 31, 2020	As at December 31, 2021
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		24,019	25,198
Right-of-use assets		2,430	2,139
Interests in leasehold land		202	189
Goodwill		49,816	49,809
Intangible assets		11,408	15,617
Fulfillment costs		1,418	1,512
Customer acquisition costs		670	858
Contract assets		354	300
Interests in associates		211	360
Interests in joint ventures		602	555
Financial assets at fair value through other comprehensive income		124	124
Financial assets at fair value through profit or loss		49	38
Derivative financial instruments		214	131
Deferred income tax assets		841	758
Other non-current assets		1,076	889
		93,434	98,477
Current assets			
Inventories		820	1,218
Prepayments, deposits and other current assets		2,209	2,141
Contract assets		657	699
Trade receivables, net	9	3,253	3,953
Amounts due from related companies		40	31
Financial assets at fair value through profit or loss		16	15
Tax recoverable		5	8
Restricted cash		107	187
Short-term deposits		538	472
Cash and cash equivalents		2,092	2,411
		9,737	11,135

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

As at December 31, 2021

(In HK\$ million)

	Note	As at December 31, 2020	As at December 31, 2021
Current liabilities			
Short-term borrowings		(1,552)	(61)
Trade payables	10	(3,945)	(5,250)
Accruals and other payables		(4,084)	(4,221)
Derivative financial instruments		(24)	–
Carrier licence fee liabilities		(215)	(315)
Amount due to a fellow subsidiary		(1,585)	(1,962)
Amount due to a related company		(42)	(65)
Advances from customers		(247)	(270)
Contract liabilities		(1,423)	(1,513)
Lease liabilities		(1,251)	(1,023)
Current income tax liabilities		(1,001)	(1,523)
		(15,369)	(16,203)
Non-current liabilities			
Long-term borrowings		(40,719)	(43,628)
Derivative financial instruments		(128)	(128)
Deferred income tax liabilities		(4,253)	(4,674)
Carrier licence fee liabilities		(627)	(3,449)
Contract liabilities		(1,074)	(1,159)
Lease liabilities		(1,458)	(1,162)
Other long-term liabilities		(1,643)	(2,012)
		(49,902)	(56,212)
Net assets		37,900	37,197
CAPITAL AND RESERVES			
Share capital		8	8
Reserves		37,830	37,133
Equity attributable to holders of			
Share Stapled Units/shares of the Company		37,838	37,141
Non-controlling interests		62	56
Total equity		37,900	37,197

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 the Company 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, 2021 comprise the consolidated financial statements of the HKT Trust, the Company 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, 2021 comprise the consolidated financial statements of the Company 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 the Company and the sole activity of the HKT Trust during the year ended December 31, 2021 was investing in the Company. 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 the Company with the only differences being disclosures of the capital of the Company. 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 the Company 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 issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The following amended Hong Kong Financial Reporting Standards are adopted for the financial year beginning January 1, 2021, but have no material effect on the Groups’ reported results and financial position for the current and prior accounting periods.

- HKAS 39 (Amendments), *Financial Instruments: Recognition and Measurement*
- HKFRS 4 (Amendments), *Insurance Contracts*
- HKFRS 7 (Amendments), *Financial Instruments: Disclosures*
- HKFRS 9 (2014) (Amendments), *Financial Instruments*
- HKFRS 16 (Amendments), *Leases*

1. BASIS OF PREPARATION (CONTINUED)

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

As at December 31, 2021, the current liabilities of the Groups exceeded their current assets by HK\$5,068 million. Included in the current liabilities was current portion of contract liabilities of HK\$1,513 million recognized for which no direct cash settlement is required but will gradually reduce over the contract terms through the satisfaction of performance obligations. Also, considering the Groups' ability to generate net operating cash inflows and raise additional debt financing, and the undrawn banking facilities totaling HK\$9,878 million as at December 31, 2021, management considers the Groups are able to meet their liabilities as and when they fall due within the next twelve-month period. 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, 2020 and 2021 included in this preliminary announcement of annual results for the year ended December 31, 2021 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 those 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, 2020 have been delivered to the Registrar of Companies and the Combined Financial Statements for the year ended December 31, 2021 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.
- Pay TV includes interactive pay-TV services in Hong Kong.
- Other businesses of the Groups (“Other Businesses”) primarily comprises new business areas such as The Club and HKT Financial Services, 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, gains/losses 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, 2020

(In HK\$ million)

	TSS	Mobile	Pay TV	Other Businesses	Eliminations	Consolidated
Revenue						
External revenue	21,608	10,006	418	357	–	32,389
Inter-segment revenue	749	360	229	8	(1,346)	–
Total revenue	22,357	10,366	647	365	(1,346)	32,389
External revenue from contracts with customers:						
Timing of revenue recognition						
At a point in time	2,672	2,395	9	185	–	5,261
Over time	18,868	7,611	409	161	–	27,049
External revenue from other sources:						
Rental income	68	–	–	11	–	79
	21,608	10,006	418	357	–	32,389
Results						
EBITDA	8,412	4,747	174	(806)	–	12,527

For the year ended December 31, 2021

(In HK\$ million)

	TSS	Mobile	Pay TV	Other Businesses	Eliminations	Consolidated
Revenue						
External revenue	20,708	10,838	1,551	864	–	33,961
Inter-segment revenue	1,104	910	905	8	(2,927)	–
Total revenue	21,812	11,748	2,456	872	(2,927)	33,961
External revenue from contracts with customers:						
Timing of revenue recognition						
At a point in time	2,855	3,367	17	667	–	6,906
Over time	17,798	7,471	1,534	197	–	27,000
External revenue from other sources:						
Rental income	55	–	–	–	–	55
	20,708	10,838	1,551	864	–	33,961
Results						
EBITDA	8,468	4,780	481	(996)	–	12,733

2. SEGMENT INFORMATION (CONTINUED)

Commencing from January 1, 2021, the CODM assesses the business of The Club separately from the reportable segments other than “Other Businesses”, and revenue of other reportable segments generated through the e-commerce platform of The Club are included in the segment of “Other Businesses” together with the corresponding cost of sales. To conform with the current year’s presentation, relevant revenue of HK\$124 million is reclassified to “Other Businesses” for the year ended December 31, 2020 with no impact on EBITDA.

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

In HK\$ million	2020	2021
Total segment EBITDA	12,527	12,733
Gains on disposal of property, plant and equipment and right-of-use assets, net	2	24
Depreciation and amortization	(5,341)	(5,652)
Other gains/(losses), net	361	(8)
Finance costs, net	(1,296)	(1,148)
Share of results of associates	(68)	(115)
Share of results of joint ventures	(11)	(15)
Profit before income tax	6,174	5,819

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	2020	2021
Hong Kong (place of domicile)	27,024	28,303
Mainland and other parts of China	942	1,166
Others	4,423	4,492
	32,389	33,961

As at December 31, 2021, the total of non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK\$94,304 million (2020: HK\$88,937 million), and the total of these non-current assets located in other geographical locations was HK\$3,012 million (2020: HK\$2,957 million).

3. REVENUE

In HK\$ million	2020	2021
Revenue from contracts with customers	32,310	33,906
Revenue from other sources: rental income	79	55
	32,389	33,961

3. REVENUE (CONTINUED)

a. Revenue recognition in relation to contract liabilities

In HK\$ million	2020	2021
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,361	1,423

b. Unsatisfied long-term fixed-price contracts

In HK\$ million	2020	2021
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31,	18,670	20,107

As at December 31, 2021, management expected that 57% and 24% (2020: 58% and 25%) 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 19% (2020: 17%) 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. OTHER GAINS/(LOSSES), NET

In HK\$ million	2020	2021
Negative goodwill on acquisition of subsidiaries	692	–
Write-off of intangible assets	(302)	–
Loss on disposal of subsidiaries, net	(35)	–
Others	6	(8)
	361	(8)

5. PROFIT BEFORE INCOME TAX

Profit before income tax was stated after charging the following:

In HK\$ million	2020	2021
Cost of inventories sold	5,130	6,648
Cost of sales, excluding inventories sold	10,573	10,081
Depreciation of property, plant and equipment	1,118	1,234
Depreciation of right-of-use assets – land and buildings	1,302	1,338
Depreciation of right-of-use assets – network capacity and equipment	175	139
Amortization of land lease premium – interests in leasehold land	13	13
Amortization of intangible assets	1,327	1,500
Amortization of fulfillment costs	481	393
Amortization of customer acquisition costs	925	1,035

6. INCOME TAX

In HK\$ million	2020	2021
Current income tax:		
Hong Kong profits tax	417	477
Overseas tax	17	15
Movement of deferred income tax	421	505
	855	997

Hong Kong profits tax is provided at the rate of 16.5% (2020: 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.

7. DISTRIBUTIONS/DIVIDENDS

In HK\$ million	2020	2021
Interim distribution/dividend declared and paid in respect of the current year of 30.70 HK cents (2020: 30.10 HK cents) per Share Stapled Unit/ordinary share of the Company	2,280	2,326
Less: distribution/dividend for Share Stapled Units/ordinary shares of the Company held by the Share Stapled Units award schemes	(1)	(1)
	2,279	2,325
Final distribution/dividend declared in respect of the previous financial year, approved and paid during the year of 40.97 HK cents (2020: 40.37 HK cents) per Share Stapled Unit/ordinary share of the Company	3,058	3,104
Less: distribution/dividend for Share Stapled Units/ordinary shares of the Company held by the Share Stapled Units award schemes	(1)	(1)
	3,057	3,103
	5,336	5,428

For the year ended December 31, 2021, the Company proposed a final dividend of 42.07 HK cents per ordinary share, totaling HK\$3,187 million (2020: 40.97 HK cents per ordinary share, totaling HK\$3,104 million) to the HKT Trust after the end of the reporting period.

For the year ended December 31, 2021, the HKT Trust proposed a final distribution of 42.07 HK cents per Share Stapled Unit, totaling HK\$3,187 million (2020: 40.97 HK cents per Share Stapled Unit, totaling HK\$3,104 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.

8. 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:

	2020	2021
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	5,303	4,808
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,574,922,662	7,575,742,334
Effect of Share Stapled Units held under the Share Stapled Units award schemes	(195,875)	(2,967,769)
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	7,574,726,787	7,572,774,565
Effect of Share Stapled Units awarded under the Share Stapled Units award schemes	1,477,218	1,443,288
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	7,576,204,005	7,574,217,853

9. TRADE RECEIVABLES, NET

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

In HK\$ million	2020	2021
1 – 30 days	2,043	2,829
31 – 60 days	455	440
61 – 90 days	274	180
91 – 120 days	106	92
Over 120 days	570	575
	3,448	4,116
Less: loss allowance	(195)	(163)
	3,253	3,953

As at December 31, 2021, included in trade receivables, net were amounts due from related parties of HK\$39 million (2020: HK\$21 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.

10. TRADE PAYABLES

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

In HK\$ million	2020	2021
1 – 30 days	1,708	2,318
31 – 60 days	906	696
61 – 90 days	548	879
91 – 120 days	268	547
Over 120 days	515	810
	3,945	5,250

As at December 31, 2021, included in trade payables were amounts due to related parties of HK\$22 million (2020: HK\$28 million).

11. SUBSEQUENT EVENT

On January 18, 2022, HKT Capital No. 6 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$650 million 3.00% guaranteed notes due 2032, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKT Group Holdings Limited (“HKTGH”) and Hong Kong Telecommunications (HKT) Limited (“HKTL”), both being wholly-owned subsidiaries of the Company, and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

**AUDITED INCOME STATEMENT OF
HKT MANAGEMENT LIMITED**

For the year ended December 31, 2021

In HK\$'000	2020	2021
Management fee income	54	54
General and administrative expenses	(54)	(54)
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, 2021

In HK\$'000	2020	2021
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, 2021

In HK\$'000	As at December 31, 2020	As at December 31, 2021
ASSET AND LIABILITIES		
Current asset		
Amount due from a fellow subsidiary	438	492
	438	492
Current liabilities		
Accruals and other payables	(52)	(52)
Amounts due to fellow subsidiaries	(386)	(440)
	(438)	(492)
Net assets	—	—
CAPITAL AND RESERVES		
Share capital	—	—
Reserves	—	—
Total equity	—	—

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; Mai Yanzhou; Wang Fang 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.