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)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached audited consolidated financial statements of HKT Group Holdings Limited ("**HKTGH**") and Hong Kong Telecommunications (HKT) Limited ("**HKTL**") for the year ended December 31, 2021 published on the website of the Taipei Exchange.

HKTL is wholly-owned by HKTGH which is in turn wholly-owned by HKT Limited.

HKTGH and its subsidiaries (the "**HKTGH Group**") are principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, FinTech, e-Commerce, Big Data Analytics, media entertainment including the provision of interactive pay-TV services, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers. The HKTGH Group operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world. Revenue of the HKTGH Group accounted for approximately 100% of the total revenue of HKT Limited and its subsidiaries for the year ended December 31, 2021.

HKTL and its subsidiaries (the “**HKTL Group**”) mainly provide telecommunications and related services, which include local telephony, local data and broadband, international telecommunications, wholesale mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing and consulting primarily in Hong Kong. Revenue of the HKTL Group accounted for approximately 44% of the total revenue of HKT Limited and its subsidiaries for the year ended December 31, 2021.

By order of the boards of
HKT Management Limited
and
HKT Limited
Cheung Hok Chee, Vanessa
Group General Counsel and Company Secretary

Hong Kong, April 14, 2022

April 12, 2022

US$300,000,000 zero coupon guaranteed notes due 2030 (listed on the Taipei Exchange) issued by HKT Capital No. 1 Limited and guaranteed by HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited

To bondholders:

Please find attached the audited consolidated financial statements of HKT Group Holdings Limited ("HKTGH") and Hong Kong Telecommunications (HKT) Limited ("HKTL") for the year ended December 31, 2021 for your reference.

HKTL is wholly-owned by HKTGH which is in turn wholly-owned by HKT Limited.

HKTGH and its subsidiaries (the "HKTGH Group") provide telecommunications and related services, which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, FinTech, e-Commerce, Big Data Analytics, media entertainment including the provision of interactive pay-TV services, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers. The HKTGH Group operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world. Revenue of the HKTGH Group accounted for approximately 100% of the total revenue of HKT Limited and its subsidiaries for the year ended December 31, 2021.

HKTL and its subsidiaries (the "HKTL Group") mainly provide telecommunications and related services, which include local telephony, local data and broadband, international telecommunications, wholesale mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing and consulting primarily in Hong Kong. Revenue of the HKTL Group accounted for approximately 44% of the total revenue of HKT Limited and its subsidiaries for the year ended December 31, 2021.

If you have any questions, please do not hesitate to contact us.

Regards,

Investor Relations
HKT Limited
Tel: (852) 2514-5084
Email: ir@hkt.com

HKT GROUP HOLDINGS LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited
The consolidated financial statements of HKT Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 4 to 101, comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include principal accounting policies and other explanatory information.

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED *(CONTINUED)*
(Incorporated in the Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

TO THE BOARD OF DIRECTORS OF HKT GROUP HOLDINGS LIMITED *(CONTINUED)*
(Incorporated in the Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 8, 2022

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	Note(s)	2020	**2021**
Revenue	5, 6	32,389	**33,961**
Cost of sales	8(b)	(15,703)	**(16,729)**
General and administrative expenses	8(c)	(9,487)	**(10,118)**
Other gains/(losses), net	7	359	**(4)**
Finance costs, net	9	(1,384)	**(1,167)**
Share of results of associates		(68)	**(115)**
Share of results of joint ventures		(19)	**(18)**
Profit before income tax	5, 8	6,087	**5,810**
Income tax	11	(843)	**(996)**
Profit for the year		5,244	**4,814**
Profit attributable to:			
Equity holder of the Company		5,228	**4,800**
Non-controlling interests		16	**14**
Profit for the year		5,244	**4,814**

The notes on pages 11 to 101 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	2020	**2021**
Profit for the year	5,244	**4,814**
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	68	**(29)**
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	(96)	**(78)**
Total comprehensive income for the year	5,148	**4,736**
Attributable to:		
Equity holder of the Company	5,134	**4,722**
Non-controlling interests	14	**14**
Total comprehensive income for the year	5,148	**4,736**

The notes on pages 11 to 101 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

		2020		
In HK$ million	Note	Attributable to equity holder of the Company	Non-controlling interests	Total equity
As at January 1, 2020		30,782	58	30,840
Total comprehensive income for the year				
Profit for the year		5,228	16	5,244
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		70	(2)	68
Reclassification of currency translation reserve on disposal of subsidiaries		5	-	5
Cash flow hedges:				
- effective portion of changes in fair value	26(c)	(268)	-	(268)
- transfer from equity to consolidated income statement	26(c)	(82)	-	(82)
Costs of hedging	26(c)	181	-	181
Other comprehensive loss		(94)	(2)	(96)
Total comprehensive income for the year		5,134	14	5,148
Transactions with equity holder				
Issue of ordinary shares	28(a)	2,020	-	2,020
Receipt of PCCW Shares under the PCCW Subscription Scheme		32	-	32
Dividend paid in respect of the previous year	12	(3,058)	-	(3,058)
Interim dividend declared and paid in respect of the current year	12	(2,110)	-	(2,110)
Dividends declared and paid to non-controlling shareholders of subsidiaries		-	(14)	(14)
Total contributions by and distributions to equity holder		(3,116)	(14)	(3,130)
Acquisition of subsidiaries		-	4	4
Total changes in ownership interests in subsidiaries that do not result in a loss of control		-	4	4
Total transactions with equity holder		(3,116)	(10)	(3,126)
As at December 31, 2020		32,800	62	32,862

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2021

		2021		
In HK$ million	Note	**Attributable to equity holder of the Company**	**Non-controlling interests**	**Total equity**
As at January 1, 2021		**32,800**	**62**	**32,862**
Total comprehensive income for the year				
Profit for the year		**4,800**	**14**	**4,814**
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		**(29)**	**-**	**(29)**
Cash flow hedges:				
- effective portion of changes in fair value	26(c)	**(2)**	**-**	**(2)**
- transfer from equity to consolidated income statement	26(c)	**8**	**-**	**8**
Costs of hedging	26(c)	**(55)**	**-**	**(55)**
Other comprehensive loss		**(78)**	**-**	**(78)**
Total comprehensive income for the year		**4,722**	**14**	**4,736**
Transactions with equity holder				
Issue of ordinary shares	28(a)	**304**	**-**	**304**
Dividend paid in respect of the previous year	12	**(3,104)**	**-**	**(3,104)**
Interim dividend declared and paid in respect of the current year	12	**(2,063)**	**-**	**(2,063)**
Dividends declared and paid to non-controlling shareholders of subsidiaries		**-**	**(19)**	**(19)**
Total contributions by and distributions to equity holder		**(4,863)**	**(19)**	**(4,882)**
Acquisition of a subsidiary		**-**	**(1)**	**(1)**
Total changes in ownership interest in a subsidiary that do not result in a loss of control		**-**	**(1)**	**(1)**
Total transactions with equity holder		**(4,863)**	**(20)**	**(4,883)**
As at December 31, 2021		**32,659**	**56**	**32,715**

The notes on pages 11 to 101 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

In HK$ million	Note(s)	2020	**2021**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	24,019	**25,198**
Right-of-use assets	14	2,430	**2,139**
Interests in leasehold land	15	202	**189**
Goodwill	16	49,816	**49,809**
Intangible assets	17	11,408	**15,617**
Fulfillment costs		1,418	**1,512**
Customer acquisition costs		670	**858**
Contract assets		354	**300**
Interests in associates	18	211	**360**
Interests in joint ventures	19	438	**398**
Financial assets at fair value through other comprehensive income	20	124	**124**
Financial assets at fair value through profit or loss	21	72	**51**
Derivative financial instruments	26	214	**131**
Deferred income tax assets	30	841	**758**
Other non-current assets	23	1,076	**889**
		93,293	**98,333**
Current assets			
Inventories	24(a)	820	**1,218**
Prepayments, deposits and other current assets	24(b)	2,205	**2,135**
Contract assets		657	**699**
Trade receivables, net	24(c)	3,253	**3,953**
Amounts due from related companies	4(c)	40	**31**
Financial assets at fair value through profit or loss	21	31	**31**
Tax recoverable		1	**-**
Restricted cash	24(d)	107	**187**
Short-term deposits		538	**472**
Cash and cash equivalents	32(c)	2,091	**2,411**
		9,743	**11,137**
Current liabilities			
Short-term borrowings	24(e)	(1,552)	**(61)**
Trade payables	24(f)	(3,945)	**(5,250)**
Accruals and other payables		(4,091)	**(4,229)**
Derivative financial instruments	26	(24)	**-**
Carrier licence fee liabilities	31	(215)	**(315)**
Amounts due to fellow subsidiaries and the immediate holding company	4(c), 4(d)	(6,616)	**(6,428)**
Amount due to a related company	4(c)	(42)	**(65)**
Advances from customers		(247)	**(270)**
Contract liabilities		(1,423)	**(1,513)**
Lease liabilities		(1,251)	**(1,023)**
Current income tax liabilities		(863)	**(1,386)**
		(20,269)	**(20,540)**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AS AT DECEMBER 31, 2021

In HK$ million	Note	2020	**2021**
Non-current liabilities			
Long-term borrowings	25	(40,719)	**(43,628)**
Derivative financial instruments	26	(128)	**(128)**
Deferred income tax liabilities	30	(4,253)	**(4,674)**
Carrier licence fee liabilities	31	(627)	**(3,449)**
Contract liabilities		(1,074)	**(1,159)**
Lease liabilities		(1,458)	**(1,162)**
Other long-term liabilities		(1,646)	**(2,015)**
		(49,905)	**(56,215)**
Net assets		32,862	**32,715**
CAPITAL AND RESERVES			
Share capital	28	4,961	**4,961**
Reserves	29	27,839	**27,698**
Equity attributable to equity holder of the Company		32,800	**32,659**
Non-controlling interests	22(b)	62	**56**
Total equity		32,862	**32,715**

Approved and authorized for issue by the board of directors (the "Board") on April 8, 2022 and signed on behalf of the Board by

Hui Hon Hing, Susanna
Director

Wong Hong Kit
Director

The notes on pages 11 to 101 form part of these consolidated financial statements.

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	Note	2020	**2021**
NET CASH GENERATED FROM OPERATING ACTIVITIES	32(a)	10,448	**10,657**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		3	**42**
Purchases of property, plant and equipment		(2,377)	**(2,378)**
Additions of intangible assets		(2,391)	**(2,887)**
Net (outflow)/inflow of cash and cash equivalents in respect of business combinations		(1,881)	**2**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries		136	**-**
Investments in associates		(70)	**(264)**
Investment in a joint venture		-	**(30)**
Investments in financial assets at fair value through profit or loss		-	**(2)**
Loans to an associate		(11)	**-**
Loans to a joint venture		(56)	**(41)**
Repayment of loan from an associate		11	**-**
Cash received from lease receivables		69	**83**
(Increase)/Decrease in short-term deposits with maturity more than three months		(52)	**66**
NET CASH USED IN INVESTING ACTIVITIES		(6,619)	**(5,409)**
FINANCING ACTIVITIES			
New borrowings raised	32(b)	19,511	**15,912**
Finance costs paid	32(b)	(772)	**(616)**
Repayments of borrowings	32(b)	(17,693)	**(14,468)**
Payment for lease liabilities (including interest)	32(b)	(1,590)	**(1,624)**
Movement in amounts due to fellow subsidiaries and the immediate holding company	32(b)	(475)	**726**
Movement in amount due to a related company	32(b)	-	**22**
Dividends paid to the sole shareholder of the Company	12	(5,168)	**(5,167)**
Dividends paid to non-controlling shareholders of subsidiaries		(14)	**(19)**
Consideration paid to acquire non-controlling interests of a subsidiary		(8)	**-**
Proceeds from issue of ordinary shares	28(a)	2,020	**304**
NET CASH USED IN FINANCING ACTIVITIES		(4,189)	**(4,930)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(360)	**318**
Exchange differences		35	**2**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,416	**2,091**
End of year	32(c)	2,091	**2,411**

The notes on pages 11 to 101 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

HKT Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on January 18, 2008. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is a direct wholly-owned subsidiary of HKT Limited ("HKT") which is a company incorporated in the Cayman Islands with its share stapled units (the "Share Stapled Units") jointly issued with the HKT Trust listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider PCCW Limited ("PCCW"), a company incorporated in the Hong Kong Special Administrative Region ("Hong Kong") with its shares listed on the Main Board of the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States, to be the Company's ultimate holding company.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, FinTech, e-Commerce, Big Data Analytics, media entertainment including the provision of interactive pay-TV services, 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.

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These 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 ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the principal accounting policies adopted by the Group is set out below.

b. Basis of preparation of the financial statements

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 Group's 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*

The Group has not early adopted any other new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 40.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

b. Basis of preparation of the financial statements *(continued)*

The consolidated financial statements for the year ended December 31, 2021 comprise the financial statements of the Group, and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- financial assets at fair value through profit or loss (see note 2(n));
- financial assets at fair value through other comprehensive income (see note 2(n)); and
- derivative financial instruments (see note 2(p)).

As at December 31, 2021, the current liabilities of the Group exceeded its current assets by HK$9,403 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 Group's 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 Group is able to meet its 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 preparation of financial statements in conformity with Hong Kong Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on these consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into these consolidated financial statements from the date that control commences until the date that control ceases.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

c. Subsidiaries and non-controlling interests *(continued)*

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKFRS 9 (2014) *Financial Instruments* in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by Hong Kong Financial Reporting Standards.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

If the business combination is achieved in stages, the acquisition-date carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in the consolidated income statement.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity holder of the Group. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For subsidiaries which have accounting year ends different from the Group, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Group.

Adjustments are made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing these consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized profits.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

d. Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in these consolidated financial statements using the equity method and are initially recorded at cost. The Group's interests in associates include goodwill identified on acquisition, net of any accumulated impairment loss and adjust thereafter for the post-acquisition changes in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax items of the associates' other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment using the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to the consolidated income statement where appropriate.

Adjustments are made to the financial statements of associates when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

e. Joint arrangements

The Group applies HKFRS 11 *Joint Arrangements* to all joint arrangements. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Group classifies joint arrangements as joint ventures when the Group has rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for in these consolidated financial statements using the equity method, as described in note 2(d).

Adjustments are made to the financial statements of joint ventures when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

f. Gaining or losing control

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

g. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(o)(ii)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(h)); and

- other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the consolidated income statement as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the consolidated income statement on the date of retirement or disposal.

Projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful life
Exchange equipment	5 to 25 years
Transmission plant	5 to 40 years
Other plant and equipment	1 to 20 years

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

i. Assets leased to the Group

Leases are initially recognized as a right-of-use asset/interest in leasehold land and corresponding liability, where applicable, at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Interest in leasehold land is amortized on a straight-line basis over the lease term.

The Group has elected the practical expedient not to separate lease and non-lease components of certain class of underlying assets and account for whole as a single lease component in the measurement of lease liabilities and right-of-use assets.

Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable;

– variable lease payments that are based on an index or a rate; and

– payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liabilities;

– any lease payments made at or before the commencement date, less any lease incentives received;

– any initial direct costs; and

– restoration costs.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

h. Leased assets *(continued)*

i. Assets leased to the Group *(continued)*

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

ii. Assets leased out by the Group

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Where the Group leases out right-of-use assets ("sublease"), the Group as an intermediate lessor classifies the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease.

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o)(ii). Revenue arising from operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Where the Group leases out assets under finance leases, the present value of lease receipts is recognized as a receivable. Each lease receipt is allocated between the receivable and interest income. The interest element of the lease receipt is recognized in the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

i. Goodwill

Goodwill represents the excess of the cost of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested at least annually for impairment (see note 2(o)(ii)). In respect of associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

On disposal of a CGU or part of a CGU, an associate or a joint venture during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

j. Intangible assets (other than goodwill)

i. Carrier licences

Carrier licences to establish and maintain the telecommunications network and to provide telecommunications services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded as an intangible asset together with the related obligations. Where the Group has the right to return a licence and expects to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunications services.

The difference between the discounted value and the total minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated income statement as incurred.

ii. Capitalized programme costs

Costs incurred to produce or acquire television rights, for which the Group can determine the broadcasting schedules, are capitalized as intangible assets. The intangible assets are amortized on an accelerated basis over the shorter of the expected economic life of 2 to 4 years and the licence period. Other costs incurred for the transmission rights for showing programmes, sports events and films on the Group’s television channels, including sport rights for multiple seasons or competitions, of which the broadcasting schedules are determined by the content providers, are recognized in the consolidated income statement on a straight-line basis over the period of transmission rights across the season or competition. Other payments of programme costs made in advance or in arrears are recognized in the consolidated statement of financial position as prepayments, deposits and other current assets or accruals and other payables, as appropriate.

iii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, and design and implement new process or systems, licences and market knowledge are capitalized as intangible assets if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- adequate technical, financial and other resources are available to complete the development and to use the software;
- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and
- the Group has power to obtain future economic benefits flowing from the underlying resource.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

j. Intangible assets (other than goodwill) *(continued)*

iii. Software *(continued)*

Development costs that do not meet the above criteria are expensed in the consolidated income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 to 10 years.

iv. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(o)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Trademarks	20 years
Customer base	8 to 10 years

The assets' useful lives and their amortization methods are reviewed annually.

k. Fulfillment costs

Direct costs incurred in fulfilling a contract with a customer, which mainly comprise setup and related costs in respect of the Group's telecommunications and pay-TV services, are capitalized as an asset to the extent that the cost generates or enhances resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Fulfillment costs are amortized on a straight-line basis over the expected life of the customer contract.

l. Customer acquisition costs

Incremental costs incurred to obtain a contract with a customer, which mainly comprise sales commission, are capitalized as customer acquisition costs if the Group expects to recover those costs. Costs of obtaining a contract are amortized on a systematic basis over the expected life of the customer contract.

m. Contract assets/liabilities

Customer pays according to a pre-agreed payment schedule. If the performance obligations fulfilled by the Group exceed the total non-refundable payments received and unconditional rights to contract consideration to date, a contract asset is recognized. If the total non-refundable payments received and unconditional rights to contract consideration to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

Advances from customers represent refundable customer advances, please refer to note 2(u) for the accounting policies.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Investments in debt and equity securities

Classification

The Group classifies its investments in debt and equity securities, other than interests in subsidiaries, associates, and joint arrangements, as:

– those to be measured subsequently at fair value (at either fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL")); and

– those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instrument at FVOCI.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownerships.

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost is recognized in the consolidated income statement when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest method.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Investments in debt and equity securities *(continued)*

Subsequent measurement (continued)

Debt instruments *(continued)*

– FVOCI: Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses, interest income using the effective interest method and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to the consolidated income statement and recognized in other gains/(losses), net.

– FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognized and presented net in the consolidated income statement within other gains/(losses), net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment, any balance within the financial assets at FVOCI reserve for these equity investments is reclassified to retained profits. Dividends from such investments continue to be recognized in the consolidated income statement as other gains/(losses), net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses), net in the consolidated income statement as applicable.

Impairment losses (and reversal of impairment losses) on equity instruments measured at FVOCI are not reported separately from other changes in fair value.

o. Impairment of assets

i. Investments in debt instruments and trade and other receivables

The Group assesses on forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost or FVOCI, and trade and other receivables carried at amortized cost.

For investments in debt instruments and other receivables, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forward-looking information. Considerations may include:

– internal credit rating;

– external credit rating (as far as available);

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

o. Impairment of assets *(continued)*

i. Investments in debt instruments and trade and other receivables *(continued)*

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower; and

– significant changes in the expected performance and behavior of the borrower, including changes in the payment status of the borrower in the Group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is delinquent and in default status when there are unsettled amounts remaining on the account on the day after the invoice due date.

At each reporting date, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When measuring expected credit losses, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and possibility that no credit loss occurs.

Financial assets are written off when there is no reasonable expectation of recovery. The Group categorizes a financial asset for write off when a debtor fails to make contractual payments for a period greater than predefined limit. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

o. Impairment of assets *(continued)*

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– right-of-use assets;

– interests in leasehold land;

– fulfillment costs;

– customer acquisition costs;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. Fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– Recognition of impairment losses

An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated income statement in the period in which the reversals are recognized.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

p. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(q)).

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is 12 months or less than 12 months. Trading derivatives are classified as current assets or liabilities.

q. Hedging

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement, within finance costs.

When forward contracts are used to hedge forecast transactions, the Group designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedging reserve within equity. The change in the forward element is recognized in the consolidated income statement.

When cross currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognized in the hedging reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognized in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the consolidated income statement, as follows:

– The gain or loss relating to the effective portion of forward contracts is recognized in the consolidated income statement as the hedged item affects profit or loss.

– The gain or loss relating to the effective portion of the cross currency swap contracts hedging borrowings in foreign currency is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

– The gain or loss relating to the effective portion of the interest rate swap contracts hedging variable rate borrowings is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs and affects profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated income statement.

Hedge ineffectiveness is recognized in the consolidated income statement within finance costs.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

r. Inventories

Inventories consist of purchased parts and materials, finished goods and consumable inventories.

Purchased parts and materials and finished goods are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Consumable inventories, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

s. Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognized at fair value. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 2(o)(i)).

t. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (other than restricted cash), and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition and form an integral part of the Group's cash management.

u. Trade and other payables

Trade payables, interecompany payables, advances from customers and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

v. Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

w. Provisions and contingent liabilities

Provisions are recognized when (i) the Group has a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

x. Revenue recognition

The Group's revenue is primarily earned from the following business units (i) Telecommunications and (ii) Pay TV.

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Group's activities. Revenue is recognized when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time.

The Group often enters into bundled sale contracts with customers in which, apart from the provision of telecommunications, media entertainment, and other services, the Group has certain other performance obligations to customers such as the delivery of handsets, equipment, gifts and reward points from the Group's customer loyalty programme offering a variety of goods and services ("Reward Points"). When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The costs of respective handsets, equipment and gifts delivered are recognized as cost of sales when the corresponding revenue is recognized.

A financing component, if any, might exist when timing of the payment for goods or services by the customers, differs from the timing of satisfaction of the performance obligation. Such financing component is not significant to the Group.

i. Telecommunications

Telecommunications services comprise local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers.

Local telephony, local data and broadband, international telecommunications and mobile businesses earn revenue primarily by providing access to and usage of the telecommunications network locally and internationally. As part of the bundled service offerings, the Group also delivers handsets, equipment, gifts and Reward Points, which are considered as separate performance obligations.

For the telecommunications services, revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs and is based on the output method, either as the service allowance units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of services to the customer. For service plan based on usage, where monthly usage exceeds the allowance, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognized when the customer exercises the option. Income from other telecommunications services are recognized when services are rendered. Customers are invoiced in advance on a monthly basis or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

For the sales of the handsets, equipment and gifts, revenue is generally recognized when control passes to the customer, being when the products are delivered to and accepted by the customer. The customer has full discretion over the handsets, equipment and gifts and there are no unfulfilled obligations that can affect the customer's acceptance of those goods. Customers are invoiced immediately or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

When the Reward Points are awarded to the members, such revenue at their relative stand-alone selling price is deferred as a liability until the Reward Points are redeemed. Breakage, referring to Reward Points that are expected to expire, is recognized and determined based on assumptions such as historical experience, future redemption pattern and programme design.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

x. Revenue recognition *(continued)*

i. Telecommunications *(continued)*

Revenue from enterprise solutions services is recognized over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Input method is used to measure the progress as it depicts the Group's performance in transferring the control of the asset. The progress is measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. Customers make settlement periodically throughout the contract period according to the pre-agreed payment schedule. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

ii. Pay TV

Pay TV includes interactive pay-TV services in Hong Kong.

Subscription income from the interactive pay-TV services is recognized ratably over the contract period which generally coincides with when the services are rendered.

Advertising income from interactive pay-TV services is recognized (i) when the advertisements are telecast on pay-TV, delivered through internet and mobile platforms; or (ii) ratably over the contractual display period of the contract when the advertisements are placed on the Group's website and mobile platforms.

Customers are invoiced in advance on a monthly basis or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

y. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

z. Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

aa. Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ab. Cost of sales and general and administrative expenses

General and administrative expenses represent operating costs incurred other than cost of sales. Cost of sales mainly includes cost of inventories sold, connectivity costs and staff costs relating to sales; while general and administrative expenses mainly include depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of land lease premium, amortization of intangible assets, amortization of fulfillment costs, amortization of customer acquisition costs, impairment loss for trade receivables and other staff costs.

ac. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous years.

iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ac. Income tax *(continued)*

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

ad. Employee benefits

i. Short-term employee benefits
Salaries, annual bonuses, annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Retirement benefits
The Group operates defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by contributions from the relevant companies in the Group.

For defined contribution retirement schemes, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the defined contribution retirement schemes are recognized as an expense in the consolidated income statement in the period to which the contributions relate.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ad. Employee benefits *(continued)*

iii. Share-based payments

PCCW, the HKT Trust and HKT operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW (the "PCCW Shares") and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of options to acquire PCCW Shares and Share Stapled Units is recognized as staff costs in the consolidated income statement with a corresponding increase in a capital contribution from members in respect of employee share-based compensation under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of options that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity. On vesting date, the amount recognized as staff costs regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity). The equity amount remains in the capital contribution from members in respect of employee share-based compensation under equity.

Share Stapled Units may be granted to employees at nil consideration under HKT's Share Stapled Units award schemes, under which the awarded Share Stapled Units are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or purchased from the open market (the "HKT Share Stapled Units Purchase Scheme").

PCCW also grants PCCW Shares to employees of PCCW and its participating companies at nil consideration under its share award schemes, under which the awarded PCCW Shares are either newly issued at issue price (the "PCCW Subscription Scheme") or purchased from the open market (the "PCCW Purchase Scheme").

Awards under the share award schemes are accounted for as cash-settled share-based payments. The fair value of the awarded PCCW Shares and Share Stapled Units representing the quoted market price of PCCW Shares and Share Stapled Units purchased from the open market under the PCCW Purchase Scheme/HKT Share Stapled Units Purchase Scheme and the issue price of PCCW Shares and Share Stapled Units under the PCCW Subscription Scheme/HKT Share Stapled Units Subscription Scheme is recognized as financial assets at FVPL, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW Shares and Share Stapled Units is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW Shares and Share Stapled Units that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW Shares and Share Stapled Units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW Shares and Share Stapled Units recognized in the financial assets at FVPL is offset with the obligation.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the number of employees affected, or individual employees have been advised of the specific terms.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ae. Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Hong Kong dollars (HK$), which is the functional currency of the Company and the presentation currency of the Group.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates when the fair values are determined. Exchange differences arising on translation of non-monetary assets and liabilities, such as equity instruments at FVPL, are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as equity instruments measured at FVOCI, are included in the fair value gain or loss in the financial assets at FVOCI reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Items of foreign operations in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relates to that foreign operation is included in the calculation of the profit or loss on disposal.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

af. Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

v. the party is a close family member of a party referred to in note i above or is an entity under the control, joint control or significant influence of such party;

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group; or

vii. the entity, or any member of the Group of which it is a part, provides key management personnel services to the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

ag. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. 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. Inter-segment transactions are eliminated in full in preparing these consolidated financial statements.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment and interests in leasehold land) that are expected to be used for more than one year.

ah. Dividend distribution

Dividend distribution to the Company's sole shareholder is recognized as a liability in the consolidated financial statements in the period in which the dividend is approved by the Board or the Company's sole shareholder, where appropriate.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ai. Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. The Group netted off government grants relating to employee benefits with staff cost in cost of sales and general and administrative expenses that are not capitalized. Government grants relating to capitalized staff cost are directly deducted from the carrying amount of the respective assets recognized and credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 16 and 34 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

i. Impairment of assets (other than investments in debt instruments and trade and other receivables)

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– right-of-use assets;

– interests in leasehold land;

– fulfillment costs;

– customer acquisition costs;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

i. Impairment of assets (other than investments in debt instruments and trade and other receivables) *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable amount, representing the greater of the asset's fair value less costs of disposal or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving a reasonable estimate of the recoverable amount, the Group may perform such assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of any asset.

ii. Revenue recognition

Under certain arrangements, apart from the provision of telecommunications, media entertainment, and other services, the Group has certain other performance obligations to customers such as the delivery of handsets, equipment, gifts and Reward Points. When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The Group is required to exercise considerable judgement in relation to estimating the stand-alone selling price.

iii. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and business plans. In the event that the Group's estimates of projected future taxable income and benefits from available business plans are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

iv. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are queries raised by the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these queries or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

v. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

The Group has significant property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs. The Group is required to estimate the lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The lives are estimated at the time of purchase of these assets or direct costs incurred in fulfilling or acquiring a contract with a customer after considering future technology changes, business developments, the Group's strategies and expected lives of customer contracts. The Group performs annual reviews to assess the appropriateness of the estimated lives. Such reviews take into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancements in technology. The Group extends or shortens the lives according to the results of the reviews.

vi. Lease term and discount rate determination

In determining the lease term, management considers facts and circumstances such as conditions of the Group's existing leases, future technology changes, business developments and the Group's strategies, that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows are not included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. As at December 31, 2021, potential future undiscounted cash outflows of HK$653 million (2020: HK$570 million) have not been included in the lease liabilities because it is not reasonably certain that the lease will be extended (or not terminated).

In determining the discount rate, the Group is required to exercise considerable judgement by taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the lease modification (if any).

4 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

In HK$ million	Note	2020	**2021**
Telecommunications service fees and data center service fees received or receivable from a substantial shareholder of PCCW	a	77	**130**
Telecommunications service fees and data center service fees paid or payable to a substantial shareholder of PCCW	a	101	**105**
Telecommunications service fees, consultancy service charges and interest income received or receivable from joint ventures	a	27	**21**
Telecommunications service fees and interest expense paid or payable to joint ventures	a	122	**117**
Telecommunications service fees, connectivity service fees, interest income, contact center service charges, equipment sales, consultancy service charges and other costs recharge received or receivable from associates	a	20	**23**
Telecommunications service fees, data center service fees, connectivity service fees, equipment sales, insurance premium, insurance agency service charges, advertising fees, and other costs recharge received or receivable from related parties under common shareholders with the Company	a	56	**66**
Insurance premium, equipment purchase costs, outsourcing fees, rental charges and other costs recharge paid or payable to related parties under common shareholders with the Company	a	127	**270**
Telecommunications service fees, connectivity service fees, management fee, equipment sales, content provision fees and other costs recharge received or receivable from fellow subsidiaries	a	2,043	**2,148**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy service charges, rental and facilities management charges, management fee, content provision fees and other costs recharge paid or payable to fellow subsidiaries	a	2,421	**1,449**
Interest paid or payable to the immediate holding company	a	88	**19**
Key management compensation	b	25	**27**

a. The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

4 RELATED PARTY TRANSACTIONS *(CONTINUED)*

b. Details of key management compensation

In HK$ million	2020	**2021**
Salaries and other short-term employee benefits	18	**20**
Share-based compensation	6	**6**
Post-employment benefits	1	**1**
	25	**27**

c. Balances with related companies and fellow subsidiaries

As at December 31, 2021, other than as specified in notes 18 and 19 and the amount due to a related company which comprised an unsecured loan of HK$65 million which bears interest at 2.5% per annum and is repayable within 1 year, the amounts due to fellow subsidiaries and the other amounts due from related companies are unsecured, non-interest bearing, and have no fixed repayment terms.

As at December 31, 2020, other than as specified in notes 18 and 19 and the amount due to a related company which comprised an unsecured loan of HK$24 million and an unsecured loan of HK$18 million which bears interest at 2.5% per annum and 5% per annum respectively and are repayable within 1 year, the amount due to fellow subsidiaries and the other amounts due from related companies are unsecured, non-interest bearing, and have no fixed repayment terms.

d. Amount due to the immediate holding company

The balances are unsecured, non-interest bearing and have no fixed repayment terms, except for a loan payable to the immediate holding company of HK$4,434 million as at December 31, 2021 (2020: HK$4,994 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2020: same) and is repayable within one year (2020: same).

5 SEGMENT INFORMATION

The CODM is the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

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

- 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 Group's mobile telecommunications businesses in Hong Kong.

- Pay TV includes interactive pay-TV services in Hong Kong.

- Other businesses of the Group ("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 Group's share of results of associates and joint ventures.

5 SEGMENT INFORMATION *(CONTINUED)*

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.

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

				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	(795)	-	12,538
Other information						
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,419	875	31	112	-	2,437

5 SEGMENT INFORMATION *(CONTINUED)*

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

				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**	**(987)**	**-**	**12,742**
Other information						
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	**1,314**	**879**	**121**	**144**	**-**	**2,458**

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.

5 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2020	**2021**
Total segment EBITDA	12,538	**12,742**
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	359	**(4)**
Finance costs, net	(1,384)	**(1,167)**
Share of results of associates	(68)	**(115)**
Share of results of joint ventures	(19)	**(18)**
Profit before income tax	6,087	**5,810**

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

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$94,147 million (2020: HK$88,773 million), and the total of these non-current assets located in other geographical locations was HK$3,012 million (2020: HK$2,957 million).

6 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**

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**

6 REVENUE *(CONTINUED)*

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 Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

7 OTHER GAINS/(LOSSES), NET

In HK$ million	2020	**2021**
Negative goodwill on acquisition of subsidiaries *(note 38(a)(i))*	692	**-**
Write-off of intangible assets *(note 17)*	(302)	**-**
Loss on disposal of subsidiaries, net	(35)	**-**
Others	4	**(4)**
	359	**(4)**

8 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2020	**2021**
Salaries, bonuses and other benefits	1,803	**2,398**
Share-based compensation expenses	39	**34**
Retirement costs for staff under defined contribution retirement schemes	296	**320**
	2,138	**2,752**
Less: staff costs included in cost of sales	(733)	**(748)**
Staff costs included in general and administrative expenses	1,405	**2,004**

8 PROFIT BEFORE INCOME TAX *(CONTINUED)*

Profit before income tax was stated after charging and crediting the following: *(continued)*

b. Cost of sales

In HK$ million	2020	**2021**
Cost of inventories sold	5,130	**6,648**
Connectivity costs	6,741	**6,201**
Staff costs	733	**748**
Write-back of provision for inventory obsolescence, net	(16)	**(8)**
Others	3,115	**3,140**
	15,703	**16,729**

c. General and administrative expenses

In HK$ million	2020	**2021**
Staff costs	1,405	**2,004**
Impairment loss for trade receivables	256	**174**
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**
Exchange losses/(gains), net	107	**(15)**
Less: cash flow hedges: transfer from equity	(73)	**26**
Gains on disposal of property, plant and equipment and right-of-use assets, net	(2)	**(24)**
Auditor's remuneration	11	**9**
Others	2,442	**2,292**
	9,487	**10,118**

During the year ended December 31, 2020, the Group has recognized in the consolidated income statement a subsidy of HK$365 million from the Employment Support Scheme introduced by the Government of Hong Kong.

9 FINANCE COSTS, NET

In HK$ million	2020	**2021**
Interest expense, excluding interest expense on lease liabilities	(1,314)	**(1,195)**
Interest expense on lease liabilities	(86)	**(76)**
Notional accretion on carrier licence fee liabilities	(36)	**(64)**
Other finance costs	(92)	**(26)**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk	4	**24**
Hedge ineffectiveness: interest rate swap contracts – cash flow hedges for interest rate risk	(2)	**4**
Cash flow hedges: transfer from equity	9	**18**
Unwind of interest rate swap contracts	-	**39**
Impact of re-designation of fair value hedges	(16)	**(16)**
	(1,533)	**(1,292)**
Interest capitalized in property, plant and equipment and intangible assets *(note a)*	105	**92**
Total finance costs	(1,428)	**(1,200)**
Interest income	37	**25**
Interest income from net investment in leases	7	**8**
Total interest income	44	**33**
Finance costs, net	(1,384)	**(1,167)**

a. The capitalization rate used to determine the amount of interest eligible for capitalization in property, plant and equipment and intangible assets ranged from 2.87% to 3.08% for the year ended December 31, 2021 (2020: from 2.88% to 3.49%).

10 DIRECTORS' EMOLUMENTS

The salaries and other short-term employee benefits and post-employment benefits of approximately HK$26 million and HK$1 million (2020: HK$24 million and HK$1 million) respectively cover the compensation for the two directors of the Company for the year (2020: two).

11 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2020	**2021**
Current income tax:		
Hong Kong profits tax		
- provision for current year	401	**479**
- under/(over) provision in respect of prior years	4	**(3)**
Overseas tax		
- provision for current year	14	**14**
- under provision in respect of prior years	3	**1**
Movement of deferred income tax *(note 30(a))*	421	**505**
	843	**996**

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.

b. Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK$ million	2020	**2021**
Profit before income tax	6,087	**5,810**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2020: 16.5%)	1,004	**959**
Effect of different tax rates of subsidiaries operating overseas	10	**7**
Income not subject to tax	(223)	**(31)**
Expenses not deductible for tax purposes	66	**72**
Tax losses not recognized	67	**116**
Under/(Over) provision in respect of prior years, net	7	**(2)**
Utilization of previously unrecognized tax losses	(13)	**(8)**
Recognition of previously unrecognized tax losses	-	**(17)**
Recognition of previously unrecognized temporary differences	(6)	**(24)**
Net losses of associates and joint ventures not deductible for tax purposes	14	**22**
Corporate income tax incentives	(83)	**(98)**
Income tax expense	843	**996**

12 DIVIDENDS

In HK$ million	2020	**2021**
Interim dividend declared and paid in respect of the current year of approximately HK$3.24 (2020: approximately HK$3.32) per ordinary share of the Company	2,110	**2,063**
Final dividend declared in respect of the previous financial year, approved and paid during the year of approximately HK$4.88 (2020: approximately HK$4.81) per ordinary share of the Company	3,058	**3,104**
	5,168	**5,167**
Final dividend declared after the end of the reporting period of approximately HK$5.01 (2020: approximately HK$4.88) per ordinary share of the Company	3,104	**3,187**

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

13 PROPERTY, PLANT AND EQUIPMENT

			2020			
In HK$ million	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,389	22,954	26,851	13,774	2,341	67,309
Additions	-	319	617	303	1,198	2,437
Additions upon business combinations	-	-	-	403	151	554
Disposal of subsidiaries	-	-	-	(249)	-	(249)
Disposals	-	(383)	(3)	(74)	-	(460)
Transfers	-	435	979	182	(1,596)	-
Exchange differences	-	11	57	45	-	113
End of year	1,389	23,336	28,501	14,384	2,094	69,704
Accumulated depreciation and impairment						
Beginning of year	742	17,577	16,900	9,913	-	45,132
Charge for the year	29	371	443	275	-	1,118
Disposal of subsidiaries	-	-	-	(183)	-	(183)
Disposals	-	(382)	(3)	(74)	-	(459)
Exchange differences	-	6	35	36	-	77
End of year	771	17,572	17,375	9,967	-	45,685
Net book value						
End of year	618	5,764	11,126	4,417	2,094	24,019
Beginning of year	647	5,377	9,951	3,861	2,341	22,177

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13 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	2021					
In HK$ million	**Buildings**	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,389**	**23,336**	**28,501**	**14,384**	**2,094**	**69,704**
Additions	**-**	**359**	**484**	**417**	**1,198**	**2,458**
Disposals	**(36)**	**(313)**	**(258)**	**(143)**	**-**	**(750)**
Transfers	**-**	**211**	**440**	**345**	**(996)**	**-**
Exchange differences	**-**	**-**	**(66)**	**(9)**	**-**	**(75)**
End of year	**1,353**	**23,593**	**29,101**	**14,994**	**2,296**	**71,337**
Accumulated depreciation and impairment						
Beginning of year	**771**	**17,572**	**17,375**	**9,967**	**-**	**45,685**
Charge for the year	**28**	**409**	**477**	**320**	**-**	**1,234**
Disposals	**(18)**	**(313)**	**(258)**	**(140)**	**-**	**(729)**
Exchange differences	**-**	**-**	**(40)**	**(11)**	**-**	**(51)**
End of year	**781**	**17,668**	**17,554**	**10,136**	**-**	**46,139**
Net book value						
End of year	**572**	**5,925**	**11,547**	**4,858**	**2,296**	**25,198**
Beginning of year	**618**	**5,764**	**11,126**	**4,417**	**2,094**	**24,019**

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

14 RIGHT-OF-USE ASSETS

In HK$ million	2020	**2021**
Land and buildings	2,183	**1,928**
Network capacity and equipment	247	**211**
Total	2,430	**2,139**

The Group obtains right to control the use of various land and buildings, and network capacity and equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 14 years for land and buildings, and from 1 to 10 years for network capacity and equipment. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes. As at December 31, 2020, the Group also subleased certain buildings whose lease terms were for the whole of the remaining term of the head leases and had classified the subleases as finance leases.

Additions to the right-of-use assets during the year ended December 31, 2021 were HK$1,278 million (2020: HK$1,336 million).

During the year ended December 31, 2021, total cash outflow for leases amounted to HK$1,725 million (2020: HK$1,712 million), which included cash outflow for short-term lease expenses amounted to HK$101 million (2020: HK$122 million) that were recognized in the consolidated income statement.

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

15 INTERESTS IN LEASEHOLD LAND

In HK$ million	2020	**2021**
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	321	**334**
Charge for the year	13	**13**
End of year	334	**347**
Net book value		
End of year	202	**189**
Beginning of year	215	**202**

16 GOODWILL

In HK$ million	2020	**2021**
Cost		
Beginning of year	49,814	**49,816**
Additions upon business combination	43	**-**
Disposal of a subsidiary	(47)	**-**
Exchange differences	6	**(7)**
End of year	49,816	**49,809**

Impairment tests for CGUs containing goodwill

Goodwill was allocated to the Group's CGUs identified according to operating segments as follows:

In HK$ million	2020	**2021**
TSS		
- Local telephony and data services	31,739	**31,739**
- Global	1,224	**1,217**
Mobile	16,853	**16,853**
Total	49,816	**49,809**

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a 5-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2021 were as follows:

	2020				**2021**			
	Average revenue growth rate	Average EBITDA growth rate	Terminal growth rate	Pre-tax discount rate	**Average revenue growth rate**	**Average EBITDA growth rate**	**Terminal growth rate**	**Pre-tax discount rate**
TSS								
- Local telephony and data services	1%	1%	1%	8%	**2%**	**2%**	**1%**	**8%**
- Global	1%	3%	3%	13%	**2%**	**5%**	**3%**	**14%**
Mobile	3%	3%	2%	12%	**3%**	**2%**	**2%**	**12%**

These assumptions were used for the analysis of each CGU.

There was no impairment required from the review on goodwill. A reasonably possible change in assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered necessary.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used were consistent with the forecasts included in industry reports. The terminal growth rates did not exceed the long-term average growth rates for the businesses in which the CGUs operate.

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17 INTANGIBLE ASSETS

	2020						
In HK$ million	Trademarks	Carrier licences	Customer base	Software	Capitalized programme costs	Others	Total
Cost							
Beginning of year	1,860	4,872	2,764	6,632	-	-	16,128
Additions	1	364	-	1,956	69	8	2,398
Additions upon business combinations	192	-	210	-	59	59	520
Write-off	-	(98)	(10)	(338)	-	-	(446)
Exchange differences	1	-	-	-	-	-	1
End of year	2,054	5,138	2,964	8,250	128	67	18,601
Accumulated amortization							
Beginning of year	657	1,612	2,339	1,402	-	-	6,010
Charge for the year	96	439	190	575	25	2	1,327
Write-off	-	(98)	(10)	(36)	-	-	(144)
Exchange differences	1	-	(1)	-	-	-	-
End of year	754	1,953	2,518	1,941	25	2	7,193
Net book value							
End of year	1,300	3,185	446	6,309	103	65	11,408
Beginning of year	1,203	3,260	425	5,230	-	-	10,118

17 INTANGIBLE ASSETS *(CONTINUED)*

				2021			
In HK$ million	**Trademarks**	**Carrier licences**	**Customer base**	**Software**	**Capitalized programme costs**	**Others**	**Total**
Cost							
Beginning of year	**2,054**	**5,138**	**2,964**	**8,250**	**128**	**67**	**18,601**
Additions	**-**	**3,355**	**-**	**2,250**	**103**	**-**	**5,708**
Write-off	**-**	**(169)**	**(40)**	**-**	**(4)**	**-**	**(213)**
Exchange differences	**-**	**-**	**2**	**-**	**-**	**-**	**2**
End of year	**2,054**	**8,324**	**2,926**	**10,500**	**227**	**67**	**24,098**
Accumulated amortization							
Beginning of year	**754**	**1,953**	**2,518**	**1,941**	**25**	**2**	**7,193**
Charge for the year	**103**	**553**	**202**	**529**	**107**	**6**	**1,500**
Write-off	**-**	**(169)**	**(40)**	**-**	**(4)**	**-**	**(213)**
Exchange differences	**(1)**	**-**	**2**	**-**	**-**	**-**	**1**
End of year	**856**	**2,337**	**2,682**	**2,470**	**128**	**8**	**8,481**
Net book value							
End of year	**1,198**	**5,987**	**244**	**8,030**	**99**	**59**	**15,617**
Beginning of year	**1,300**	**3,185**	**446**	**6,309**	**103**	**65**	**11,408**

The amortization charge for the year is included in general and administrative expenses in the consolidated income statement.

As at December 31, 2020 and 2021, no impairment loss was recognized for the intangible assets. Impairment assessments for intangible assets are performed as part of the impairment assessments for the corresponding CGUs. For details of the accounting policies and the impairment assessments, please refer to notes 2(o)(ii) and 16.

18 INTERESTS IN ASSOCIATES

In HK$ million	2020	**2021**
Share of net assets of associates	278	**423**
Loan due from an associate	8	**7**
Provision for impairment	(75)	**(70)**
	211	**360**

During the year ended December 31, 2021, no provision for impairment was recognized in the consolidated income statement (2020: nil).

18 INTERESTS IN ASSOCIATES *(CONTINUED)*

During the year ended December 31, 2021, the Group has made investments in associates of HK$264 million, mainly in associates engaged in businesses in the provision of virtual banking services, and electric vehicle charging solutions and related services.

During the year ended December 31, 2020, the Group made an investment in an associate engaged in business in the provision of virtual banking services of HK$70 million.

During the year ended December 31, 2020, 東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*) ("Jietongda") became a 56.5% owned indirect subsidiary of the Company and is consolidated by the Group, details of which are set out in note 38(b).

* Unofficial company name

As at December 31, 2021, loan due from an associate of HK$7 million (2020: HK$8 million), is secured, bears interest at 8% per annum (2020: same) and is repayable within 1 year (2020: same). The loan is considered as equity in nature for which full provision for impairment has been made as at December 31, 2020 and 2021.

a. As at December 31, 2020 and 2021, the Group considered that there were no principal associates.

b. Contingent liabilities in respect of associates

There were no contingent liabilities relating to the Group's interests in the associates. As at December 31, 2021, the Group's share of the contingent liabilities of an associate was HK$3 million (2020: HK$3 million).

c. Summarized unaudited financial information of the Group's associates

For the year ended December 31, 2021, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates that are accounted for using the equity method were HK$115 million (2020: HK$68 million), nil (2020: nil) and HK$115 million (2020: HK$68 million), respectively.

d. Reconciliation of summarized unaudited financial information of the Group's associates

As at December 31, 2021, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK$360 million (2020: HK$211 million).

During the year ended December 31, 2021, the Group did not have any unrecognized share of losses of associates (2020: nil). As at December 31, 2021, there was no accumulated share of losses of associates unrecognized by the Group (2020: nil).

19 INTERESTS IN JOINT VENTURES

In HK$ million	2020	**2021**
Share of net assets of joint ventures	142	**156**
Loan due from a joint venture	296	**242**
	438	**398**

As at December 31, 2021, all balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK$242 million (2020: HK$296 million) bears interest at HIBOR plus 3% per annum (2020: same). The amount is considered as part of the interests in joint ventures.

a. Particulars of the principal joint venture of the Group as at December 31, 2021 are as follows:

Company name	Principal place of business/ place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	-	50%	Equity

GBL is a strategic partnership of the Group, providing access to advanced connectivity services in Hong Kong for the development of mobile business.

GBL is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2021, the Group's commitments in respect of joint ventures are as follows:

In HK$ million	2020	**2021**
The Group's commitments to provide funding	29	**46**
The Group's share of joint ventures' capital commitments authorized and contracted for acquisition of property, plant and equipment	6	**9**
The Group's share of joint ventures' other commitments	24	**6**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2021, the Group had no share of contingent liabilities related to the joint ventures (2020: nil).

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Group and being accounted for using the equity method.

In HK$ million	As at December 31, 2020	**2021**
Non-current assets	698	**594**
Current assets		
Cash and cash equivalents	13	**4**
Other current assets (excluding cash and cash equivalents)	27	**23**
Total current assets	40	**27**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(320)	**(241)**
Other current liabilities (including trade payables, accruals and other payables)	(60)	**(145)**
Total current liabilities	(380)	**(386)**
Non-current liabilities		
Financial liabilities	(419)	**(307)**
Other non-current liabilities	(33)	**(32)**
Total non-current liabilities	(452)	**(339)**
Net liabilities	(94)	**(104)**
Equity attributable to equity holders	(94)	**(104)**

In HK$ million	For the year ended December 31, 2020	**2021**
Revenue	236	**229**
Depreciation and amortization	(94)	**(94)**
Interest expense	(30)	**(19)**
Profit before income tax	2	**1**
Income tax	(12)	**(11)**
Loss after income tax and total comprehensive loss	(10)	**(10)**
Dividend received from the joint venture	-	**-**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) and adjusted for differences in accounting policies between the Group and the joint venture, if any.

19 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures *(continued)*

For the year ended December 31, 2021, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive income and total comprehensive loss of the individually immaterial joint ventures that are accounted for using the equity method were HK$13 million (2020: HK$14 million), HK$2 million (2020: HK$3 million) and HK$11 million (2020: HK$11 million), respectively.

d. Reconciliation of summarized unaudited financial information of the Group's joint ventures

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in GBL, the principal joint venture.

In HK$ million	2020	**2021**
Net liabilities		
Beginning of year	(84)	**(94)**
Loss and total comprehensive loss for the year	(10)	**(10)**
End of year	(94)	**(104)**
Interest in a joint venture	50%	**50%**
	(47)	**(52)**
Loan due from a joint venture	296	**242**
Carrying amount	249	**190**

As at December 31, 2021, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK$208 million (2020: HK$189 million).

During the year ended December 31, 2021, the Group did not have any unrecognized share of losses of joint ventures (2020: nil). As at December 31, 2021, there was no accumulated share of losses of joint ventures unrecognized by the Group (2020: nil).

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK$ million	2020	**2021**
Non-current assets - Unlisted securities		
Balance as at January 1 and December 31,	124	**124**

As at December 31, 2021, financial assets at FVOCI comprised unlisted equity investments which are held for strategic purposes (2020: same).

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2020	**2021**
Listed securities	72	**49**
Less: securities held for employee share award schemes to be vested within one year classified as current assets	(31)	**(31)**
Listed securities (non-current)	41	**18**
Unlisted securities (non-current)	31	**33**
Total non-current portion	72	**51**

Financial assets at FVPL mainly comprise:

- debt instrument that does not qualify for measurement either at amortized cost or at FVOCI;
- PCCW Shares acquired and subscribed under the PCCW Purchase Scheme and PCCW Subscription Scheme. Refer to note 27(b)(ii) for details of the share award schemes of PCCW; and
- Share Stapled Units acquired and subscribed under the HKT Share Stapled Units Purchase Scheme and HKT Share Stapled Units Subscription Scheme. Refer to note 27(b)(ii) for details of the Share Stapled Units award schemes of HKT.

During the year ended December 31, 2021, there were additions of unlisted securities recognized as financial assets at FVPL of HK$2 million (2020: nil).

22 INTERESTS IN SUBSIDIARIES

a. Particulars of the principal subsidiaries of the Company as at December 31, 2021 are as follows:

Company name	Place of incorporation/ operations	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
HKT Services Limited	Hong Kong	HK$1	-	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	HK$9,945,156,001	-	100%	Provision of telecommunications services
電訊盈科科技（北京）有限公司[3] (PCCW Technology (Beijing) Limited[4])	The People's Republic of China (the "PRC")	RMB40,000,000	-	100%	System integration, software development and technical services consultancy
CSL Mobile Limited	Hong Kong	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	-	100%	Provision of mobile services to its customers and the sale of mobile handsets and accessories
Sun Mobile Limited	Hong Kong	HK$41,600,002	-	60%[1]	Provision of mobile telecommunications services to customers in Hong Kong
Club HKT Limited	Hong Kong	HK$1	-	100%	Operating customer loyalty programme and online merchandise sales in Hong Kong
Gateway Global Communications Limited	United Kingdom	GBP2	-	100%	Provision of network-based telecommunications services to external customers and related companies
PCCW Global B.V.	Netherlands/ France	EUR18,000	-	100%	Sales, distribution and marketing of telecommunications services and products
PCCW Global, Inc.	Delaware, U.S.	US$18.01	-	100%	Supply of broadband internet access solutions and web services

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2021 are as follows: *(continued)*

Company name	Place of incorporation/ operations	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
PCCW Global Limited	Hong Kong/ Dubai Media City	HK$240,016,690.65	-	100%	Provision of network-based telecommunications services
PCCW Global (Japan) K.K.	Japan	JPY10,000,000	-	100%	Provision of telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK$10	-	100%	Provision of satellite-based and network-based telecommunications services
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S$260,960,522.64	-	100%	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	-	75%[2]	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced contact center services
PCCW Media Limited	Hong Kong	HK$8,041,216,269 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	-	100%	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet
PCCW Content Limited	Hong Kong	HK$1	-	100%	Distribution of media content
廣州電盈綜合客戶服務技術發展有限公司[3] (PCCW Customer Management Technology and Services (Guangzhou) Limited[4])	The PRC	HK$93,240,000	-	100%	Customer service and consultancy

22 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2021 are as follows: *(continued)*

Company name	Place of incorporation/ operations	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
HKT Teleservices International Limited	Hong Kong	HK$350,000,002	-	100%	Provision of customer relationship management and customer contact management solutions and services
盈環網絡技術（上海）有限公司[3] (HKT Teleservices (China) Limited[4])	The PRC	RMB14,000,000	-	100%	Provision of contact center service in value-added telecommunications services and telecommunications solutions related services and consultancy

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

Notes:
1 The equity interest held by non-controlling interest is 40% as at December 31, 2021.
2 The equity interest held by non-controlling interest is 25% as at December 31, 2021.
3 Represents a wholly-foreign owned enterprise.
4 Unofficial company name.

b. Non-controlling interests of the Group's subsidiaries

The total of non-controlling interests as at December 31, 2021 was HK$56 million (2020: HK$62 million), of which HK$48 million (2020: HK$54 million) was mainly attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

23 OTHER NON-CURRENT ASSETS

In HK$ million	2020	**2021**
Prepayments	764	**779**
Deposits	154	**110**
Others	158	**-**
	1,076	**889**

24 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	2020	**2021**
Purchased parts and materials	467	**722**
Finished goods	293	**452**
Consumable inventories	60	**44**
	820	**1,218**

b. Prepayments, deposits and other current assets

In HK$ million	2020	**2021**
Prepayments	826	**785**
Deposits	314	**354**
Other current assets	1,065	**996**
	2,205	**2,135**

As at December 31, 2021, included in prepayments were prepaid programme costs of HK$123 million (2020: HK$190 million).

c. Trade receivables, net

In HK$ million	2020	**2021**
Trade receivables *(note i)*	3,448	**4,116**
Less: loss allowance *(note ii)*	(195)	**(163)**
Trade receivables, net	3,253	**3,953**

The balance represents amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days from the date of invoice and therefore are all classified as current. Details about the Group's impairment policies are provided in note 2(o)(i).

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

i. 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**

24 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Trade receivables, net *(continued)*

ii. Impairment for trade receivables

The Group applies the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material. On that basis, the loss allowance as at December 31, 2021 was determined as follows:

Expected credit loss rate	2020	**2021**
Current	1%	**1%**
1 - 120 days past due	5%	**3%**
Over 120 days past due	36%	**32%**

The movements in the loss allowance during the year were as follows:

In HK$ million	2020	**2021**
Beginning of year	143	**195**
Net impairment loss recognized	256	**174**
Uncollectible amounts written off	(204)	**(206)**
End of year	195	**163**

d. Restricted cash

As at December 31, 2021, cash balance of HK$187 million (2020: HK$107 million) has been received from and restricted for the use of certain customers.

e. Short-term borrowings

In HK$ million	2020	**2021**
Bank borrowings	1,552	**61**
Secured	-	**-**
Unsecured	1,552	**61**

Refer to note 37 for details of the Group's banking facilities.

f. Trade payables

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

25 LONG-TERM BORROWINGS

In HK$ million	2020	**2021**
Repayable within a period		
- over one year, but not exceeding two years	2,640	**9,592**
- over two years, but not exceeding five years	24,283	**26,111**
- over five years	13,796	**7,925**
	40,719	**43,628**
Representing:		
US$500 million 3.75% guaranteed notes due 2023 *(note a)*	3,824	**3,870**
US$300 million zero coupon guaranteed notes due 2030 *(note b)*	2,314	**2,329**
US$500 million 3.625% guaranteed notes due 2025 *(note c)*	3,850	**3,874**
EUR200 million 1.65% guaranteed notes due 2027 *(note d)*	1,878	**1,752**
US$750 million 3.00% guaranteed notes due 2026 *(note e)*	5,789	**5,828**
US$500 million 3.25% guaranteed notes due 2029 *(note f)*	3,815	**3,844**
Bank borrowings *(note g)*	19,249	**22,131**
	40,719	**43,628**
Secured	-	**-**
Unsecured	40,719	**43,628**

a. US$500 million 3.75% guaranteed notes due 2023
On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

b. US$300 million zero coupon guaranteed notes due 2030
On January 15, 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

c. US$500 million 3.625% guaranteed notes due 2025
On April 2, 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

d. EUR200 million 1.65% guaranteed notes due 2027
On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

25 LONG-TERM BORROWINGS *(CONTINUED)*

e. US$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

f. US$500 million 3.25% guaranteed notes due 2029

On September 30, 2019, HKT Capital No. 5 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.25% guaranteed notes due 2029, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

g. Refer to note 37 for details of the Group's banking facilities.

26 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2020	**2021**
Non-current assets		
Cross currency swap contracts – cash flow hedges for foreign currency risk *(note a)*	214	**131**
Current liabilities		
Foreign exchange forward contracts	(3)	-
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	(21)	-
	(24)	-
Non-current liabilities		
Cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk *(note a)*	(37)	**(31)**
Interest rate swap contract – cash flow hedge for interest rate risk *(note b)*	(91)	**(97)**
	(128)	**(128)**

Derivatives are mainly used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at FVPL.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

26 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Hedge ineffectiveness for the Group's cross currency swap, foreign exchange forward and interest rate swap contracts may occur due to:

- differences in critical terms between the hedged item and the hedging instrument; and

- changes in credit risk of the derivative counterparty.

a. Cash flow hedges for foreign currency risk

For certain borrowings denominated in foreign currencies, the Group has entered into cross currency swap contracts and foreign exchange forward contracts to hedge the foreign currency risk. The Group performed qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedging instruments.

The effects of the foreign currency related hedging instruments outstanding at the end of the reporting period on the Group's financial position and performance are as follows:

	2020	**2021**
Net carrying amount (assets)	HK$177 million	**HK$100 million**
Notional amount	EUR200 million and US$2,220 million	**EUR200 million and US$2,720 million**
Maturity date	March 2023 to September 2029	**March 2023 to September 2029**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$210 million)	**(HK$18 million)**
Change# in value of the hedged items during the year	HK$212 million	**HK$42 million**
Weighted average hedged exchange rate for the year	EUR1:HK$8.32 US$1:HK$7.79	**EUR1:HK$8.32 US$1:HK$7.79**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

26 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Cash flow hedges for interest rate risk

For certain borrowings subject to cash flow interest rate risk, the Group has entered into floating-to-fixed interest rate swap contracts. The Group performed qualitative assessment of hedge effectiveness. As the interest rate swap contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedging instruments.

The effects of the interest rate related hedging instruments outstanding at the end of the reporting period on the Group's financial position and performance are as follows:

	2020	**2021**
Net carrying amount (liabilities)	(HK$112 million)	**(HK$97 million)**
Notional amount	HK$4,450 million	**HK$1,000 million**
Maturity date	March 2021 to March 2023	**March 2023**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$100 million)	**HK$23 million**
Change# in value of the hedged items during the year	HK$96 million	**(HK$23 million)**
Weighted average receive leg/pay leg interest ratio	0.61	**0.29**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

26 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Hedging reserve and costs of hedging reserve

The Group's hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK$ million	Cash flow hedges for foreign currency risk	Cash flow hedges for interest rate risk	Total
Hedging reserve			
As at January 1, 2020	391	47	438
Cash flow hedges:			
- effective portion of changes in fair value	(164)	(104)	(268)
- transfer from equity to consolidated income statement	(92)	3	(89)
As at December 31, 2020 and January 1, 2021	**135**	**(54)**	**81**
Cash flow hedges:			
- effective portion of changes in fair value	**(42)**	**40**	**(2)**
- transfer from equity to consolidated income statement	**(7)**	**3**	**(4)**
As at December 31, 2021	**86**	**(11)**	**75**

In HK$ million	Cash flow hedges for foreign currency risk
Costs of hedging reserve	
As at January 1, 2020	(158)
Cash flow hedges:	
- transfer from equity to consolidated income statement	7
Costs of hedging	181
As at December 31, 2020 and January 1, 2021	**30**
Cash flow hedges:	
- transfer from equity to consolidated income statement	**12**
Costs of hedging	**(55)**
As at December 31, 2021	**(13)**

27 EMPLOYEE BENEFITS

a. Employee retirement benefits - Defined contribution retirement schemes

The Group operates defined contribution retirement schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

Forfeited contributions totaling HK$16 million (2020: HK$8 million) were utilized during the year ended December 31, 2021 to reduce contributions and no forfeited contribution (2020: nil) was available as at December 31, 2021.

b. Equity compensation benefits

PCCW, the HKT Trust and HKT operate the following share option schemes and share award schemes:

Share option schemes

- Share option scheme of PCCW adopted on May 8, 2014 (the "PCCW 2014 Scheme").

- Share Stapled Units option scheme of the HKT Trust and HKT conditionally adopted on November 7, 2011 and terminated on May 7, 2021 (the "2011-2021 Option Scheme"), and a new Share Stapled Units option scheme of the HKT Trust and HKT adopted on May 7, 2021 (the "2021-2031 Option Scheme").

Share award schemes

- Share award schemes of PCCW namely the PCCW Purchase Scheme and the PCCW Subscription Scheme (collectively the "PCCW Share Award Schemes").

- Share Stapled Units award schemes of HKT namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes").

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. Share option schemes

No share options/Share Stapled Unit options have been granted under the PCCW 2014 Scheme, the 2011-2021 Option Scheme and the 2021-2031 Option Scheme since their adoption and up to and including its date of termination (in respect of the 2011-2021 Option Scheme) and December 31, 2021 (in respect of the PCCW 2014 Scheme and the 2021-2031 Option Scheme).

ii. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the Share Stapled Units Award Schemes, each scheme provides that prior to the vesting of the awards under the relevant schemes to selected participants (including any director or employee of PCCW and its participating companies for the PCCW Share Award Schemes, and any director or employee of HKT or any of its subsidiaries for the Share Stapled Units Award Schemes), the relevant PCCW Shares/Share Stapled Units will be held in trust by the trustee for such selected participants, and will be vested over a period of time determined by the respective approving body, provided that each selected participant shall remain at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or a director of PCCW, HKT, the relevant participating company or subsidiary, and satisfies any other conditions specified at the time the award is made, notwithstanding that the respective approving body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the relevant schemes.

During the year ended December 31, 2021, share-based compensation expenses in respect of the PCCW Share Award Schemes of HK$16 million (2020: HK$19 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

During the year ended December 31, 2021, share-based compensation expenses in respect of the Share Stapled Units Award Schemes of HK$18 million (2020: HK$20 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(1) Movements in the number of PCCW Shares held under the PCCW Share Award Schemes and the Share Stapled Units held under the Share Stapled Units Award Schemes

	Number of PCCW Shares 2020	Number of PCCW Shares **2021**
PCCW Purchase Scheme:		
Beginning of year	1,081,428	**542,519**
Purchase from the market by the trustee at weighted average market price of HK$4.24 (2020: HK$4.72) per PCCW Share	542,000	**1,619,000**
PCCW Shares vested	(1,080,909)	**(1,069,882)**
End of year	542,519	**1,091,637**
PCCW Subscription Scheme:		
Beginning of year	1,797,145	**6,542,639**
PCCW Shares obtained	7,500,000	**-**
PCCW Shares vested	(2,754,506)	**(2,738,753)**
End of year	6,542,639	**3,803,886**

	Number of Share Stapled Units 2020	Number of Share Stapled Units **2021**
HKT Share Stapled Units Purchase Scheme:		
Beginning of year	1,227,922	**412,250**
Purchase from the market by the trustee at weighted average market price of HK$10.85 (2020: HK$11.56) per Share Stapled Unit	379,000	**429,000**
Share Stapled Units vested	(1,194,672)	**(411,525)**
End of year	412,250	**429,725**
HKT Share Stapled Units Subscription Scheme:		
Beginning of year	-	**3,438,886**
New Share Stapled Units jointly issued by the HKT Trust and HKT at issue price of HK$11.86 per Share Stapled Unit	4,000,000	**-**
Share Stapled Units vested	(561,114)	**(1,070,697)**
End of year	3,438,886	**2,368,189**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

			2020				
			Number of PCCW Shares				
Date of award	Vesting period	Fair value on the date of award HK$	As at January 1, 2020	Awarded	Forfeited	Vested	As at December 31, 2020
PCCW Purchase Scheme (PCCW Shares)							
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	538,444	-	-	(538,444)	-
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	542,465	-	-	(542,465)	-
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	542,457	-	-	-	542,457
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	-	527,425	-	-	527,425
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	-	527,418	-	-	527,418
Total			1,623,366	1,054,843	-	(1,080,909)	1,597,300
Weighted average fair value on the date of award (HK$)			4.71	4.64	-	4.70	4.67
PCCW Subscription Scheme (PCCW Shares)							
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	1,356,874	-	(14,825)	(1,342,049)	-
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	1,393,928	-	(17,344)	(1,376,584)	-
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	1,392,850	-	(57,671)	-	1,335,179
February 28, 2020	February 28, 2020 to April 17, 2020	4.69	-	35,873	-	(35,873)	-
February 28, 2020	February 28, 2020 to April 17, 2021	4.69	-	35,873	-	-	35,873
February 28, 2020	February 28, 2020 to April 17, 2022	4.69	-	9,612	-	-	9,612
February 28, 2020	February 28, 2020 to April 17, 2023	4.69	-	9,610	-	-	9,610
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	-	1,474,991	(49,843)	-	1,425,148
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	-	1,473,905	(49,784)	-	1,424,121
May 11, 2020	May 11, 2020 to April 16, 2021	4.77	-	40,900	-	-	40,900
May 11, 2020	May 11, 2020 to April 16, 2022	4.77	-	40,900	-	-	40,900
May 11, 2020	May 11, 2020 to April 16, 2023	4.77	-	20,448	-	-	20,448
Total			4,143,652	3,142,112	(189,467)	(2,754,506)	4,341,791
Weighted average fair value on the date of award (HK$)			4.71	4.65	4.68	4.70	4.67

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

			2020 Number of Share Stapled Units				
Date of award	Vesting period	Fair value on the date of award HK$	As at January 1, 2020	Awarded	Forfeited	Vested	As at December 31, 2020
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	880,219	-	(9,393)	(870,826)	-
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	100,000	-	-	(100,000)	-
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	15,000	-	(15,000)	-	-
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	15,000	-	-	(15,000)	-
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	208,846	-	-	(208,846)	-
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	208,839	-	-	-	208,839
April 16, 2020	April 16, 2020 to April 16, 2021	11.86	-	202,686	-	-	202,686
April 16, 2020	April 16, 2020 to April 16, 2022	11.86	-	202,676	-	-	202,676
Total			1,427,904	405,362	(24,393)	(1,194,672)	614,201
Weighted average fair value on the date of award (HK$)			10.70	11.86	10.19	10.41	12.04
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)							
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	553,451	-	(6,687)	(546,764)	-
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	552,366	-	(22,202)	-	530,164
February 28, 2020	February 28, 2020 to April 17, 2020	11.66	-	14,350	-	(14,350)	-
February 28, 2020	February 28, 2020 to April 17, 2021	11.66	-	14,349	-	-	14,349
February 28, 2020	February 28, 2020 to April 17, 2022	11.66	-	3,845	-	-	3,845
February 28, 2020	February 28, 2020 to April 17, 2023	11.66	-	3,844	-	-	3,844
April 16, 2020	April 16, 2020 to April 16, 2021	11.86	-	567,489	(19,191)	-	548,298
April 16, 2020	April 16, 2020 to April 16, 2022	11.86	-	566,382	(19,131)	-	547,251
May 11, 2020	May 11, 2020 to April 16, 2021	12.86	-	15,717	-	-	15,717
May 11, 2020	May 11, 2020 to April 16, 2022	12.86	-	15,717	-	-	15,717
May 11, 2020	May 11, 2020 to April 16, 2023	12.86	-	7,858	-	-	7,858
Total			1,105,817	1,209,551	(67,211)	(561,114)	1,687,043
Weighted average fair value on the date of award (HK$)			12.38	11.89	12.08	12.36	12.04

HKT GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

					2021		
					Number of PCCW Shares		
Date of award	**Vesting period**	**Fair value on the date of award HK$**	**As at January 1, 2021**	**Awarded**	**Forfeited**	**Vested**	**As at December 31, 2021**
PCCW Purchase Scheme (PCCW Shares)							
April 17, 2019	April 17, 2019 to April 17, 2021	**4.74**	**542,457**	**-**	**-**	**(542,457)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2021	**4.64**	**527,425**	**-**	**-**	**(527,425)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2022	**4.64**	**527,418**	**-**	**(1,641)**	**-**	**525,777**
April 16, 2021	April 16, 2021 to April 16, 2022	**4.53**	**-**	**564,051**	**(1,634)**	**-**	**562,417**
April 16, 2021	April 16, 2021 to April 16, 2023	**4.53**	**-**	**564,043**	**(1,633)**	**-**	**562,410**
Total			**1,597,300**	**1,128,094**	**(4,908)**	**(1,069,882)**	**1,650,604**
Weighted average fair value on the date of award (HK$)			**4.67**	**4.53**	**4.57**	**4.69**	**4.57**
PCCW Subscription Scheme (PCCW Shares)							
April 17, 2019	April 17, 2019 to April 17, 2021	**4.74**	**1,335,179**	**-**	**(25,495)**	**(1,309,684)**	**-**
February 28, 2020	February 28, 2020 to April 17, 2021	**4.69**	**35,873**	**-**	**-**	**(35,873)**	**-**
February 28, 2020	February 28, 2020 to April 17, 2022	**4.69**	**9,612**	**-**	**-**	**-**	**9,612**
February 28, 2020	February 28, 2020 to April 17, 2023	**4.69**	**9,610**	**-**	**-**	**-**	**9,610**
April 16, 2020	April 16, 2020 to April 16, 2021	**4.64**	**1,425,148**	**-**	**(31,952)**	**(1,393,196)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2022	**4.64**	**1,424,121**	**-**	**(124,823)**	**-**	**1,299,298**
May 11, 2020	May 11, 2020 to April 16, 2021	**4.77**	**40,900**	**-**	**(40,900)**	**-**	**-**
May 11, 2020	May 11, 2020 to April 16, 2022	**4.77**	**40,900**	**-**	**-**	**-**	**40,900**
May 11, 2020	May 11, 2020 to April 16, 2023	**4.77**	**20,448**	**-**	**-**	**-**	**20,448**
April 16, 2021	April 16, 2021 to April 16, 2022	**4.53**	**-**	**1,349,596**	**(106,922)**	**-**	**1,242,674**
April 16, 2021	April 16, 2021 to April 16, 2023	**4.53**	**-**	**1,348,621**	**(106,815)**	**-**	**1,241,806**
July 2, 2021	July 2, 2021 to April 16, 2022	**4.09**	**-**	**143,177**	**-**	**-**	**143,177**
July 2, 2021	July 2, 2021 to April 16, 2023	**4.09**	**-**	**143,177**	**-**	**-**	**143,177**
Total			**4,341,791**	**2,984,571**	**(436,907)**	**(2,738,753)**	**4,150,702**
Weighted average fair value on the date of award (HK$)			**4.67**	**4.49**	**4.60**	**4.69**	**4.54**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

				2021 Number of Share Stapled Units			
Date of award	**Vesting period**	**Fair value on the date of award HK$**	**As at January 1, 2021**	**Awarded**	**Forfeited**	**Vested**	**As at December 31, 2021**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 17, 2019	April 17, 2019 to April 17, 2021	**12.38**	**208,839**	**-**	**-**	**(208,839)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2021	**11.86**	**202,686**	**-**	**-**	**(202,686)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2022	**11.86**	**202,676**	**-**	**(630)**	**-**	**202,046**
April 16, 2021	April 16, 2021 to April 16, 2022	**11.06**	**-**	**226,945**	**(658)**	**-**	**226,287**
April 16, 2021	April 16, 2021 to April 16, 2023	**11.06**	**-**	**226,937**	**(657)**	**-**	**226,280**
Total			**614,201**	**453,882**	**(1,945)**	**(411,525)**	**654,613**
Weighted average fair value on the date of award (HK$)			**12.04**	**11.06**	**11.32**	**12.12**	**11.31**
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)							
April 17, 2019	April 17, 2019 to April 17, 2021	**12.38**	**530,164**	**-**	**(9,816)**	**(520,348)**	**-**
February 28, 2020	February 28, 2020 to April 17, 2021	**11.66**	**14,349**	**-**	**-**	**(14,349)**	**-**
February 28, 2020	February 28, 2020 to April 17, 2022	**11.66**	**3,845**	**-**	**-**	**-**	**3,845**
February 28, 2020	February 28, 2020 to April 17, 2023	**11.66**	**3,844**	**-**	**-**	**-**	**3,844**
April 16, 2020	April 16, 2020 to April 16, 2021	**11.86**	**548,298**	**-**	**(12,298)**	**(536,000)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2022	**11.86**	**547,251**	**-**	**(47,962)**	**-**	**499,289**
May 11, 2020	May 11, 2020 to April 16, 2021	**12.86**	**15,717**	**-**	**(15,717)**	**-**	**-**
May 11, 2020	May 11, 2020 to April 16, 2022	**12.86**	**15,717**	**-**	**-**	**-**	**15,717**
May 11, 2020	May 11, 2020 to April 16, 2023	**12.86**	**7,858**	**-**	**-**	**-**	**7,858**
April 16, 2021	April 16, 2021 to April 16, 2022	**11.06**	**-**	**543,603**	**(43,085)**	**-**	**500,518**
April 16, 2021	April 16, 2021 to April 16, 2023	**11.06**	**-**	**542,615**	**(42,976)**	**-**	**499,639**
July 2, 2021	July 2, 2021 to April 16, 2022	**10.56**	**-**	**57,607**		**-**	**57,607**
July 2, 2021	July 2, 2021 to April 16, 2023	**10.56**	**-**	**57,606**		**-**	**57,606**
Total			**1,687,043**	**1,201,431**	**(171,854)**	**(1,070,697)**	**1,645,923**
Weighted average fair value on the date of award (HK$)			**12.04**	**11.01**	**11.58**	**12.11**	**11.30**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

The fair values of the PCCW Shares and the Share Stapled Units awarded during the year on the dates of award are measured by the respective quoted market prices of the PCCW Shares and the Share Stapled Units at the respective award dates.

The PCCW Shares and the Share Stapled Units unvested had a weighted average remaining vesting period at the end of the reporting period as follows:

	2020	**2021**
PCCW Purchase Scheme (PCCW Shares)	0.62 year	**0.63 year**
PCCW Subscription Scheme (PCCW Shares)	0.64 year	**0.63 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.62 year	**0.64 year**
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)	0.64 year	**0.64 year**

28 SHARE CAPITAL

	2020 Number of shares	2020 Nominal value HK$	**2021 Number of shares**	**2021 Nominal value HK$**
Authorized:				
Ordinary shares of US$1 each				
Beginning and end of year	650,000,000	5,070	**650,000,000**	**5,070**
Issued and fully paid:				
Ordinary shares of US$1 each				
Beginning of year	636,000,019	4,961	**636,000,021**	**4,961**
Issued during the year *(note a)*	2	-	**4**	**-**
End of year	636,000,021	4,961	**636,000,025**	**4,961**

a. During the year ended December 31, 2021, the Company issued four (2020: two) ordinary shares of US$1 each to the sole shareholder of the Company at a premium of approximately HK$304 million (2020: HK$2,020 million).

29 RESERVES

In HK$ million	Share premium	Capital contribution reserve	Merger reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Other reserves	Retained profits	Total
					2020				
As at January 1, 2020	22,358	28	(695)	97	438	(158)	26	3,727	25,821
Total comprehensive income/(loss) for the year									
Profit for the year	-	-	-	-	-	-	-	5,228	5,228
Other comprehensive income/(loss)									
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	-	70	-	-	-	-	70
Reclassification of currency translation reserve on disposal of subsidiaries	-	-	-	5	-	-	-	-	5
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	(268)	-	-	-	(268)
- transfer from equity to consolidated income statement	-	-	-	-	(89)	7	-	-	(82)
Costs of hedging	-	-	-	-	-	181	-	-	181
Total comprehensive income/(loss) for the year	-	-	-	75	(357)	188	-	5,228	5,134
Transactions with equity holder									
Issue of ordinary shares *(note 28(a))*	2,020	-	-	-	-	-	-	-	2,020
Receipt of PCCW Shares under the PCCW Subscription Scheme	-	-	-	-	-	-	32	-	32
Dividend paid in respect of the previous year *(note 12)*	-	-	-	-	-	-	-	(3,058)	(3,058)
Interim dividend declared and paid in respect of the current year *(note 12)*	-	-	-	-	-	-	-	(2,110)	(2,110)
Total contributions by and distributions to equity holder	2,020	-	-	-	-	-	32	(5,168)	(3,116)
Reclassification of other reserve on disposal of subsidiaries	-	-	-	-	-	-	30	(30)	-
Total transactions with equity holder	2,020	-	-	-	-	-	62	(5,198)	(3,116)
As at December 31, 2020	24,378	28	(695)	172	81	30	88	3,757	27,839

29 RESERVES *(CONTINUED)*

In HK$ million	2021 Share premium	Capital contribution reserve	Merger reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Other reserves	Retained profits	Total
As at January 1, 2021	**24,378**	**28**	**(695)**	**172**	**81**	**30**	**88**	**3,757**	**27,839**
Total comprehensive income/(loss) for the year									
Profit for the year	-	-	-	-	-	-	-	**4,800**	**4,800**
Other comprehensive income/(loss)									
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	-	**(29)**	-	-	-	-	**(29)**
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	**(2)**	-	-	-	**(2)**
- transfer from equity to consolidated income statement	-	-	-	-	**(4)**	**12**	-	-	**8**
Costs of hedging	-	-	-	-	-	**(55)**	-	-	**(55)**
Total comprehensive income/(loss) for the year	-	-	-	**(29)**	**(6)**	**(43)**	-	**4,800**	**4,722**
Transactions with equity holder									
Issue of ordinary shares *(note 28(a))*	**304**	-	-	-	-	-	-	-	**304**
Dividend paid in respect of the previous year *(note 12)*	-	-	-	-	-	-	-	**(3,104)**	**(3,104)**
Interim dividend declared and paid in respect of the current year *(note 12)*	-	-	-	-	-	-	-	**(2,063)**	**(2,063)**
Total transactions with equity holder	**304**	-	-	-	-	-	-	**(5,167)**	**(4,863)**
As at December 31, 2021	**24,682**	**28**	**(695)**	**143**	**75**	**(13)**	**88**	**3,390**	**27,698**

30 DEFERRED INCOME TAX

As at December 31, 2021, deferred income tax liabilities/(assets) represent:

In HK$ million	2020	**2021**
Deferred income tax assets	(841)	**(758)**
Deferred income tax liabilities	4,253	**4,674**
	3,412	**3,916**

a. Movements in deferred income tax liabilities/(assets) were as follows:

	2020			
In HK$ million	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	3,898	(430)	(4)	3,464
Additions upon business combination	112	(592)	-	(480)
Disposal of subsidiaries	-	8	-	8
Charged to the consolidated income statement *(note 11(a))*	356	64	1	421
Exchange difference	(1)	-	-	(1)
End of year	4,365	(950)	(3)	3,412

	2021			
In HK$ million	**Accelerated tax depreciation and amortization**	**Tax losses**	**Others**	**Total**
Beginning of year	**4,365**	**(950)**	**(3)**	**3,412**
Charged to the consolidated income statement *(note 11(a))*	**425**	**80**	**-**	**505**
Exchange difference	**-**	**(1)**	**-**	**(1)**
End of year	**4,790**	**(871)**	**(3)**	**3,916**

b. Deferred income tax assets are recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. As at December 31, 2021, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$5,175 million (2020: HK$4,635 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$186 million (2020: HK$172 million) and HK$46 million (2020: HK$37 million) will expire within 1 to 5 years and after 5 years from December 31, 2021 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried-forward indefinitely.

31 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2021, the Group had carrier licence fee liabilities payable as follows:

	2020			**2021**		
In HK$ million	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Payable within a period						
— not exceeding one year	215	7	222	**315**	**5**	**320**
— over one year, but not exceeding two years	88	6	94	**311**	**14**	**325**
— over two years, but not exceeding five years	210	25	235	**837**	**78**	**915**
— over five years	329	86	415	**2,301**	**609**	**2,910**
	842	124	966	**3,764**	**706**	**4,470**
Less: amounts payable within one year included under current liabilities	(215)	(7)	(222)	**(315)**	**(5)**	**(320)**
Non-current portion	627	117	744	**3,449**	**701**	**4,150**

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2020	**2021**
Profit before income tax	6,087	**5,810**
Adjustments for:		
Other (gains)/losses, net	(359)	**4**
Finance costs, net	1,384	**1,167**
Gains on disposal of property, plant and equipment and right-of-use assets, net	(2)	**(24)**
Write-back of provision for inventory obsolescence, net	(16)	**(8)**
Impairment loss for trade receivables	256	**174**
Depreciation of property, plant and equipment	1,118	**1,234**
Depreciation of right-of-use assets	1,477	**1,477**
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**
Share of results of associates	68	**115**
Share of results of joint ventures	19	**18**
Share-based compensation expenses	39	**34**
Increase in PCCW Shares and Share Stapled Units under share award schemes	(55)	**(12)**
Decrease/(Increase) in operating assets		
- inventories	44	**(390)**
- trade receivables, prepayments, deposits and other current assets	100	**(938)**
- contract assets	(101)	**(62)**
- amounts due from related companies	16	**(10)**
- restricted cash	8	**(80)**
- fulfillment costs	(517)	**(487)**
- customer acquisition costs	(851)	**(1,149)**
- other non-current assets	10	**30**
Increase/(Decrease) in operating liabilities		
- trade payables	1,596	**1,304**
- accruals and other payables	(290)	**201**
- amounts due to fellow subsidiaries	(1,901)	**(929)**
- amount due to a related company	9	**-**
- advances from customers	(56)	**23**
- contract liabilities	78	**175**
- other long-term liabilities	(13)	**(10)**
CASH GENERATED FROM OPERATIONS	10,894	**10,608**
Interest received	22	**16**
Income tax paid, net of tax refund		
- Hong Kong profits tax (paid)/refund*	(447)	**69**
- overseas profits tax paid	(21)	**(36)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	10,448	**10,657**

* As at December 31, 2020 and 2021, certain subsidiaries of the Group had not yet received the Hong Kong profits tax assessments for the tax assessment year 2019/20 and/or 2020/21, such that any corresponding tax charge settlement would be deferred to upcoming financial years.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities

Movements of financial (assets)/liabilities arising from financing activities are as follows:

	2020						
In HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Borrowings	Derivative financial instruments, net	Amounts due to fellow subsidiaries and the immediate holding company	Lease liabilities	Total
As at January 1, 2020	(20)	251	40,358	(252)	10,003	2,762	53,102
Cash flows in financing activities							
New borrowings raised	-	10	19,501	-	-	-	19,511
Finance costs (paid)/received	-	(1,011)	-	239	-	-	(772)
Repayments of borrowings	-	-	(17,693)	-	-	-	(17,693)
Payment for lease liabilities (including interest)	-	-	-	-	-	(1,590)	(1,590)
Movement in amounts due to fellow subsidiaries and the immediate holding company	-	-	-	-	(475)	-	(475)
Cash flows in investing activities							
Loan repayment in relation to licence fee *(note 34(b)(i))*	-	-	(130)	-	-	-	(130)
Cash flows in operating activities	-	-	-	-	(1,901)	-	(1,901)
Non-cash movements	(5)	956	235	(49)	(1,011)	1,537	1,663
As at December 31, 2020	(25)	206	42,271	(62)	6,616	2,709	51,715

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities *(continued)*

Movements of financial (assets)/liabilities arising from financing activities are as follows: *(continued)*

	2021							
In HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Borrowings	Derivative financial instruments, net	Amounts due to fellow subsidiaries and the immediate holding company	Amount due to a related company	Lease liabilities	Total
As at January 1, 2021	(25)	206	42,271	(62)	6,616	42	2,709	51,757
Cash flows in financing activities								
New borrowings raised	-	(25)	15,937	-	-	-	-	15,912
Finance costs (paid)/received	-	(822)	-	206	-	-	-	(616)
Repayments of borrowings	-	-	(14,468)	-	-	-	-	(14,468)
Payment for lease liabilities (including interest)	-	-	-	-	-	-	(1,624)	(1,624)
Movement in amounts due to fellow subsidiaries and the immediate holding company	-	-	-	-	726	-	-	726
Movement in amount due to a related company	-	-	-	-	-	22	-	22
Cash flows in investing activities								
Loan repayment in relation to licence fee *(note 34(b)(i))*	-	-	(130)	-	-	-	-	(130)
Addition upon business combination	-	-	-	-	2	-	-	2
Cash flows in operating activities	-	-	-	-	(929)	-	-	(929)
Non-cash movements	16	852	79	(147)	13	1	1,100	1,914
As at December 31, 2021	(9)	211	43,689	(3)	6,428	65	2,185	52,566

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

c. Analysis of cash and cash equivalents

In HK$ million	2020	**2021**
Total cash and bank balances	2,736	**3,070**
Less: restricted cash	(107)	**(187)**
Less: short-term deposits	(538)	**(472)**
Cash and cash equivalents as at December 31,	2,091	**2,411**

33 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holder of the Group and benefits for other stakeholders to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

The Group is not subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

34 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

	2020				
In HK$ million	Financial assets at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Derivatives used for hedging	Total
Non-current assets					
Financial assets at FVOCI	-	124	-	-	124
Financial assets at FVPL	-	-	72	-	72
Derivative financial instruments	-	-	-	214	214
Other non-current assets (excluding prepayments)	312	-	-	-	312
	312	124	72	214	722
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	1,379	-	-	-	1,379
Trade receivables, net	3,253	-	-	-	3,253
Amounts due from related companies	40	-	-	-	40
Financial assets at FVPL	-	-	31	-	31
Restricted cash	107	-	-	-	107
Short-term deposits	538	-	-	-	538
Cash and cash equivalents	2,091	-	-	-	2,091
	7,408	-	31	-	7,439
Total	7,720	124	103	214	8,161

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

	2020			
In HK$ million	Derivatives used for hedging	Derivatives at FVPL	Other financial liabilities at amortized cost	Total
Current liabilities				
Short-term borrowings	-	-	(1,552)	(1,552)
Trade payables	-	-	(3,945)	(3,945)
Accruals and other payables	-	-	(4,061)	(4,061)
Derivative financial instruments	(21)	(3)	-	(24)
Carrier licence fee liabilities	-	-	(215)	(215)
Amounts due to fellow subsidiaries and the immediate holding company	-	-	(6,616)	(6,616)
Amount due to a related company	-	-	(42)	(42)
Advances from customers	-	-	(247)	(247)
Lease liabilities	-	-	(1,251)	(1,251)
	(21)	(3)	(17,929)	(17,953)
Non-current liabilities				
Long-term borrowings	-	-	(40,719)	(40,719)
Derivative financial instruments*	(128)	-	-	(128)
Carrier licence fee liabilities	-	-	(627)	(627)
Lease liabilities	-	-	(1,458)	(1,458)
Other long-term liabilities	-	-	(1,628)	(1,628)
	(128)	-	(44,432)	(44,560)
Total	(149)	(3)	(62,361)	(62,513)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	**Financial assets at amortized cost**	**Financial assets at FVOCI**	**2021 Financial assets at FVPL**	**Derivatives used for hedging**	**Total**
Non-current assets					
Financial assets at FVOCI	-	124	-	-	124
Financial assets at FVPL	-	-	51	-	51
Derivative financial instruments	-	-	-	131	131
Other non-current assets (excluding prepayments)	110	-	-	-	110
	110	124	51	131	416
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	1,350	-	-	-	1,350
Trade receivables, net	3,953	-	-	-	3,953
Amounts due from related companies	31	-	-	-	31
Financial assets at FVPL	-	-	31	-	31
Restricted cash	187	-	-	-	187
Short-term deposits	472	-	-	-	472
Cash and cash equivalents	2,411	-	-	-	2,411
	8,404	-	31	-	8,435
Total	8,514	124	82	131	8,851

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	**2021** **Derivatives used for hedging**	**Other financial liabilities at amortized cost**	**Total**
Current liabilities			
Short-term borrowings	**-**	**(61)**	**(61)**
Trade payables	**-**	**(5,250)**	**(5,250)**
Accruals and other payables	**-**	**(4,201)**	**(4,201)**
Carrier licence fee liabilities	**-**	**(315)**	**(315)**
Amounts due to fellow subsidiaries and the immediate holding company	**-**	**(6,428)**	**(6,428)**
Amount due to a related company	**-**	**(65)**	**(65)**
Advances from customers	**-**	**(270)**	**(270)**
Lease liabilities	**-**	**(1,023)**	**(1,023)**
	-	**(17,613)**	**(17,613)**
Non-current liabilities			
Long-term borrowings	**-**	**(43,628)**	**(43,628)**
Derivative financial instruments*	**(128)**	**-**	**(128)**
Carrier licence fee liabilities	**-**	**(3,449)**	**(3,449)**
Lease liabilities	**-**	**(1,162)**	**(1,162)**
Other long-term liabilities	**-**	**(1,999)**	**(1,999)**
	(128)	**(50,238)**	**(50,366)**
Total	**(128)**	**(67,851)**	**(67,979)**

* As at December 31, 2021, derivative financial instruments classified as non-current liabilities of HK$22 million (2020: HK$36 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$470 million (approximately HK$3,686 million) (2020: US$470 million (approximately HK$3,686 million)) were designated as cash flow hedges of US$300 million zero coupon guaranteed notes due 2030. The US$300 million guaranteed notes may be redeemed at the option of the Group on January 15, 2025 at an early redemption amount of US$470 million (2020: US$470 million). Refer to notes 25(b) and 26(a) for details of the guaranteed notes and the foreign exchange forward contracts respectively.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

Exposure to credit, liquidity and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, short-term deposits, restricted cash, trade receivables, contract assets, amounts due from related companies, interest receivable, lease receivables, investments in debt instruments, derivative financial instruments, deposits and other receivables. Management has policies in place and exposure to these credit risks is monitored on an ongoing basis.

The Group's 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 Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2020 and 2021, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 24(c).

The overall impact of impairment of the contract assets on these consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at December 31, 2020 and 2021 and the Group made no write-off or provision for these contract assets during the years ended December 31, 2020 and 2021.

Investments in debt instruments, amounts due from related companies, lease receivables, deposits and other receivables are considered to have low credit risk. These assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2020 and 2021, investments in debt instruments, amounts due from related companies, lease receivables, deposits and other receivables were fully performing.

Derivative financial instruments, interest receivable, restricted cash, short-term deposits and cash and cash equivalents are considered to have low credit risk. These assets are executed with creditworthy financial institutions or investment counterparties and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 36, the Group does not provide any other guarantees which would expose the Group to credit risk.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and banking facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Refer to note 36 for details.

The following tables detail the remaining contractual maturities at the end of the reporting periods of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2020					
In HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(1,561)	-	-	-	(1,561)	(1,552)
Trade payables	(3,945)	-	-	-	(3,945)	(3,945)
Accruals and other payables	(4,061)	-	-	-	(4,061)	(4,061)
Derivative financial instruments	(24)	-	-	-	(24)	(24)
Carrier licence fee liabilities	(222)	-	-	-	(222)	(215)
Amounts due to fellow subsidiaries and the immediate holding company	(6,637)	-	-	-	(6,637)	(6,616)
Amount due to a related company	(42)	-	-	-	(42)	(42)
Advances from customers	(247)	-	-	-	(247)	(247)
Lease liabilities	(1,265)	-	-	-	(1,265)	(1,251)
	(18,004)	-	-	-	(18,004)	(17,953)
Non-current liabilities						
Long-term borrowings *(note (i))*	(629)	(3,246)	(26,014)	(14,478)	(44,367)	(40,719)
Derivative financial instruments *(note (ii))*	11	11	(104)	(12)	(94)	(128)
Carrier licence fee liabilities	-	(94)	(235)	(415)	(744)	(627)
Lease liabilities	-	(671)	(716)	(86)	(1,473)	(1,458)
Other long-term liabilities *(note (iii))*	-	(65)	(798)	(3,215)	(4,078)	(1,628)
	(618)	(4,065)	(27,867)	(18,206)	(50,756)	(44,560)
Total	(18,622)	(4,065)	(27,867)	(18,206)	(68,760)	(62,513)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*
b. Liquidity risk *(continued)*

	2021					
In HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(63)	-	-	-	(63)	(61)
Trade payables	(5,250)	-	-	-	(5,250)	(5,250)
Accruals and other payables	(4,201)	-	-	-	(4,201)	(4,201)
Carrier licence fee liabilities	(320)	-	-	-	(320)	(315)
Amounts due to fellow subsidiaries and the immediate holding company	(6,447)	-	-	-	(6,447)	(6,428)
Amount due to a related company	(65)	-	-	-	(65)	(65)
Advances from customers	(270)	-	-	-	(270)	(270)
Lease liabilities	(1,068)	-	-	-	(1,068)	(1,023)
	(17,684)	-	-	-	(17,684)	(17,613)
Non-current liabilities						
Long-term borrowings *(note (i))*	(643)	(10,390)	(27,515)	(8,346)	(46,894)	(43,628)
Derivative financial instruments *(note (ii))*	12	(107)	1	(14)	(108)	(128)
Carrier licence fee liabilities	-	(325)	(915)	(2,910)	(4,150)	(3,449)
Lease liabilities	-	(610)	(579)	(19)	(1,208)	(1,162)
Other long-term liabilities *(note (iii))*	-	(773)	(46)	(3,267)	(4,086)	(1,999)
	(631)	(12,205)	(29,054)	(14,556)	(56,446)	(50,366)
Total	(18,315)	(12,205)	(29,054)	(14,556)	(74,130)	(67,979)

Notes:

(i) As at December 31, 2021, bank borrowings of HK$1,300 million (2020: HK$1,430 million) included in long-term borrowings were outstanding for financing a 15-year 3G spectrum utilization fee paid upfront by the Group.

(ii) As at December 31, 2021, derivative financial instruments included HK$78 million (2020: HK$49 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a floating-to-fixed interest rate swap contract with a notional contract amount of HK$1,000 million (2020: HK$1,000 million).

(iii) As at December 31, 2021, other long-term liabilities included HK$455 million (2020: HK$378 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK$1,665 million) (2020: EUR200 million (approximately HK$1,665 million)) and included HK$547 million (2020: HK$379 million) of long-term interest payable, which related to interest drawn under the arrangements with banks to receive agreed amounts by installments to settle interest payments of fixed-to-fixed cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2020: US$500 million (approximately HK$3,879 million)). Refer to notes 25(d), 25(a) and 26(a) for details of the guaranteed notes and the derivative financial instruments respectively.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of HKT, 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. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposure. Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

The Group's borrowings are substantially denominated in Hong Kong dollars, United States dollars and Euro. As at December 31, 2020 and 2021, all of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. The cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2021 with an aggregate notional contract amount of US$2,720 million (approximately HK$21,189 million) (2020: US$2,220 million (approximately HK$17,301 million)) and EUR200 million (approximately HK$1,665 million) (2020: EUR200 million (approximately HK$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies:

	2020			**2021**		
In HK$ million	United States Dollars	Euro	Pound Sterling	**United States Dollars**	**Euro**	**Pound Sterling**
Trade receivables	1,199	53	239	**1,059**	**70**	**248**
Short-term deposits	-	-	-	**472**	**-**	**-**
Cash and cash equivalents	677	40	23	**931**	**69**	**13**
Trade payables	(2,739)	(67)	(5)	**(3,247)**	**(72)**	**(4)**
Advances from customers	(16)	(1)	(1)	**(16)**	**(1)**	**(1)**
Lease liabilities	(89)	(8)	(1)	**(74)**	**(3)**	**(17)**
Long-term borrowings	(19,592)	(1,878)	-	**(19,745)**	**(1,752)**	**-**
Gross exposure arising from net monetary (liabilities)/assets	(20,560)	(1,861)	255	**(20,620)**	**(1,689)**	**239**
Net monetary (assets)/liabilities denominated in respective entities' functional currencies	(159)	(7)	(2)	**(86)**	**2**	**6**
Borrowings with hedging instruments	19,592	1,878	-	**19,745**	**1,752**	**-**
Overall net exposure	(1,127)	10	253	**(961)**	**65**	**245**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 1% (2020: same) against the United States dollar, with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$8 million (2020: HK$9 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2021 would have collectively debited/credited by approximately HK$197 million (2020: HK$157 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 5% (2020: same) against Euro, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by approximately HK$3 million (2020: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2021 would have collectively debited/credited by approximately HK$88 million (2020: HK$94 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 5% (2020: same) against Pound Sterling with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by approximately HK$10 million (2020: HK$11 million), mainly as a result of foreign exchange gains/losses on translation of Pound Sterling denominated monetary assets and liabilities.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remained constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis was performed on the same methodology for the years ended December 31, 2020 and 2021.

ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and interest-bearing amount due to the immediate holding company. Borrowings and balances with group companies at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under its revolving credit facilities which are substantially denominated in Hong Kong dollars with floating rate interest.

The Group has entered into floating-to-fixed interest rate swap contracts to hedge the cash flow interest rate risk arising from certain floating rate short-term and long-term borrowings.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings and interest-bearing amount due to the immediate holding company at the end of the reporting period, after taking into account the effect of the cash flow hedging instruments:

	2020		**2021**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term bank borrowings with hedging instrument	1.84	1,499	**-**	**-**
Long-term borrowings	3.80	3,850	**-**	**-**
Long-term bank borrowings with hedging instruments	2.46	2,927	**2.71**	**993**
Long-term borrowings with hedging instruments	3.74	17,620	**3.76**	**21,497**
Variable rate borrowings and amount due to the immediate holding company:				
Short-term bank borrowings	5.68	53	**5.47**	**61**
Long-term bank borrowings	1.20	16,322	**0.90**	**21,138**
Amount due to the immediate holding company	1.77	4,994	**0.43**	**4,434**
Total borrowings		47,265		**48,123**

As at December 31, 2021, if the interest rate on variable rate borrowings and amount due to the immediate holding company had increased/decreased by 50 basis points (2020: same), with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$108 million (2020: HK$90 million), mainly as a result of higher/lower interest expense on floating rate borrowings and amount due to the immediate holding company in existence at the end of the reporting period.

The sensitivity analysis has been determined assuming that the change in interest rate occurred at the end of the reporting period and applied to the Group's exposure to interest rate risk for floating rate borrowings and amount due to the immediate holding company in existence at those dates. The 50 basis points (2020: same) increase or decrease represents management's assessment of a reasonably possible change in interest rate over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for the years ended December 31, 2020 and 2021.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments. Other than unlisted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange market.

Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unlisted investments held for long-term strategic purposes is assessed at least semi-annually against the performance of the associated business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Fair values of financial instruments measured at amortized cost

All financial instruments were carried at amounts not materially different from their fair values as at December 31, 2021 except as follows:

In HK$ million	2020 Carrying amount	2020 Fair value	**2021 Carrying amount**	**2021 Fair value**
Long-term borrowings	40,719	42,155	**43,628**	**44,629**

The fair values of long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy (as defined in note 34(e)).

e. Estimation of fair values

Financial instruments carried at fair value are analyzed by valuation method and the different levels are defined as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted securities.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the Group's financial assets and liabilities that were measured at fair value:

In HK$ million	As at December 31, 2020 Level 1	Level 2	Level 3	Total
Assets				
Financial assets at FVOCI				
- Unlisted securities	-	-	124	124
Financial assets at FVPL				
- Unlisted securities (non-current)	-	-	31	31
- Listed securities (non-current)	41	-	-	41
- Listed securities (current)	31	-	-	31
Derivative financial instruments				
- Non-current	-	214	-	214
Total assets	72	214	155	441
Liabilities				
Derivative financial instruments				
- Current	-	(24)	-	(24)
- Non-current	-	(128)	-	(128)
Total liabilities	-	(152)	-	(152)

In HK$ million	**As at December 31, 2021 Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI				
- Unlisted securities	**-**	**-**	**124**	**124**
Financial assets at FVPL				
- Unlisted securities (non-current)	**-**	**-**	**33**	**33**
- Listed securities (non-current)	**18**	**-**	**-**	**18**
- Listed securities (current)	**31**	**-**	**-**	**31**
Derivative financial instruments				
- Non-current	**-**	**131**	**-**	**131**
Total assets	**49**	**131**	**157**	**337**
Liabilities				
Derivative financial instruments				
- Non-current	**-**	**(128)**	**-**	**(128)**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

Instruments included in level 1 comprised PCCW Shares acquired or subscribed under PCCW Share Award Schemes and Share Stapled Units acquired or subscribed under Share Stapled Units Award Schemes and classified as financial assets at FVPL.

Instruments included in level 2 comprised cross currency swap contracts, interest rate swap contracts and foreign exchange forward contracts classified as derivative financial instruments. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap foreign exchange rates and interest rates. The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign exchange rates quoted for contracts with the same notional amounts adjusted for maturity differences.

Instruments included in level 3 comprised investments in unlisted instruments classified as financial assets at FVOCI or financial assets at FVPL. During the year ended December 31, 2021, there was an addition of HK$2 million in the instruments included in level 3 (2020: nil).

For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2020 and 2021.

There were no material changes in valuation techniques during the years ended December 31, 2020 and 2021.

f. Group's valuation process

The Group performs and monitors the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

35 COMMITMENTS

a. Capital

As at December 31, 2021, capital commitments authorized and contracted for by nature were as follows:

In HK$ million	2020	**2021**
Investments	169	**99**
Acquisition of property, plant and equipment	828	**800**
	997	**899**

35 COMMITMENTS *(CONTINUED)*

b. Committed leases not yet commenced

As at December 31, 2021, the total future lease payments for leases committed but not yet commenced were payable as follows:

Land and buildings

In HK$ million	2020	**2021**
Within 1 year	9	**25**
After 1 year but within 5 years	64	**45**
	73	**70**

Network capacity and equipment

In HK$ million	2020	**2021**
Within 1 year	20	**11**
After 1 year but within 5 years	15	**26**
	35	**37**

c. Others

As at December 31, 2021, the Group had other outstanding commitments as follows:

In HK$ million	2020	**2021**
Purchase of rights to broadcast certain TV content	1,547	**688**
Operating expenditure commitments	3,455	**776**
	5,002	**1,464**

35 COMMITMENTS *(CONTINUED)*

d. Lease receivables

i. As at December 31, 2021, the maturity analysis of the lease receivables under non-cancellable finance leases is as follows:

In HK$ million	2020	**2021**
Within 1 year	51	**-**
After 1 year but within 2 years	40	**-**
After 2 years but within 3 years	33	**-**
After 3 years but within 4 years	14	**-**
After 4 years but within 5 years	11	**-**
After 5 years	82	**-**
Total contractual undiscounted lease receivables*	231	**-**
Less: interest income relating to future periods	(26)	**-**
Carrying amount	205	**-**
Less: amounts receivable within one year included under current assets	(47)	**-**
Non-current portion	158	**-**

* As at December 31, 2020, the majority of the leases typically run for periods of 2 to 15 years.

ii. As at December 31, 2021, the maturity analysis of the total future minimum lease receipts under non-cancellable operating leases is as follows:

In HK$ million	2020	**2021**
Within 1 year	43	**32**
After 1 year but within 2 years	20	**14**
After 2 years but within 3 years	5	**8**
After 3 years but within 4 years	-	**1**
	68	**55**

The Group leases out properties under operating leases. The majority of the leases typically run for periods of 1 to 15 years (2020: 1 to 15 years). None of the leases include material contingent rentals.

36 CONTINGENT LIABILITIES

In 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.

37 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2021 was HK$32,209 million (2020: HK$30,007 million) of which the undrawn facilities amounted to HK$9,878 million (2020: HK$9,069 million).

Majority of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand and the undrawn facilities would be cancelled. The Group regularly monitors its compliance with these covenants. As at December 31, 2021, the Group was in compliance with the covenants relating to the banking facilities. Further details of the Group's management of liquidity risk are set out in note 34(b).

Summaries of short-term and long-term borrowings are set out in notes 24(e) and 25 respectively.

38 BUSINESS COMBINATIONS

a. Acquisition of PCCW Media Limited ("PCCW Media") and its subsidiaries and joint venture (together the "PCCW Media Group") in 2020

Pursuant to the share purchase agreement dated August 6, 2020, the Group completed the acquisition of the entire issued share capital of PCCW Media by HKT Interactive Media Holdings Limited, an indirect wholly-owned subsidiary of the Company from PCCW Interactive Media Holdings Limited, an indirect wholly-owned subsidiary of PCCW for a total consideration of US$250 million (or HK$1,950 million) on September 30, 2020. Upon completion, PCCW Media became an indirect wholly-owned subsidiary of the Company. PCCW Media Group operates the "Now TV" business, a leading pay-TV service provider in Hong Kong, offering a wide range of local and international content through linear TV channels, on-demand and applications.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. In the preparation of these consolidated financial statements, the Group recorded the excess of the fair values of the acquired assets and liabilities over the cost of acquisition as negative goodwill in the consolidated income statement.

i. Details of net assets acquired and negative goodwill in respect of the acquisition of the PCCW Media Group at the acquisition date were as follows:

In HK$ million	Net assets acquired and negative goodwill
Purchase consideration settled in cash	1,950
Less: fair value of net assets acquired	(2,642)
Negative goodwill on acquisition *(note 7)*	(692)

None of the negative goodwill is expected to be taxable for tax purposes.

38 BUSINESS COMBINATIONS *(CONTINUED)*

a. Acquisition of PCCW Media Limited ("PCCW Media") and its subsidiaries and joint venture (together the "PCCW Media Group") in 2020 *(continued)*

i. Details of net assets acquired and negative goodwill in respect of the acquisition of the PCCW Media Group at the acquisition date were as follows: *(continued)*

The assets and liabilities of the PCCW Media Group at the acquisition date were as follows:

In HK$ million	Fair value
Property, plant and equipment	548
Right-of-use assets	145
Intangible assets	519
Fulfillment costs	40
Deferred income tax assets	518
Other non-current assets	16
Trade receivables	67
Prepayments, deposits and other current assets and amounts due from fellow subsidiaries and a related company	1,467
Inventories and contract assets	24
Cash and cash equivalents	61
Trade payables, accruals and other payables	(413)
Advances from customers and contract liabilities	(76)
Lease liabilities	(134)
Deferred income tax liabilities	(38)
Other long-term liabilities	(65)
	2,679
Non-controlling interests	(37)
Net assets acquired	2,642

In HK$ million	Net cash outflow
Purchase consideration settled in cash	1,950
Less: cash and cash equivalents acquired	(61)
Total net cash outflow for the year ended December 31, 2020	1,889

ii. Acquisition-related costs

Acquisition-related costs of HK$3 million were included in general and administrative expenses in the consolidated income statement for the year ended December 31, 2020.

iii. Revenue and profit contribution

PCCW Media Group contributed revenue of HK$418 million and profit before income tax of HK$63 million to the Group for the period from the completion date of the acquisition on September 30, 2020 to December 31, 2020. If the acquisition had occurred on January 1, 2020, the revenue and profit before income tax for the year ended December 31, 2020 would have been HK$1,535 million and HK$53 million, respectively.

38 BUSINESS COMBINATIONS *(CONTINUED)*

b. Acquisition of an attributable 21.5% equity interests in Jietongda in 2020

With effect from July 1, 2020, the Group, via a non-wholly owned subsidiary of the Company, acquired an attributable 21.5% equity interests in Jietongda, a limited liability company established in the PRC. Jietongda engages in the provision of support service for mobile service subscription and the sale of consumer telecom equipment and accessories. The acquisition aims to facilitate the Group's telecommunications business in the PRC. The aggregate consideration was not material to the Group. The Group accounted for Jietongda as an associate before the acquisition. Subsequent to the acquisition, Jietongda became a 56.5% owned indirect subsidiary of the Company and is consolidated by the Group.

39 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 HKTL and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and the Company.

40 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2021

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended Hong Kong Financial Reporting Standards which are not yet effective for the accounting period ended December 31, 2021 and which have not been early adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	January 1, 2023
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023
HKAS 12 (Amendments)	Income Taxes	January 1, 2023
HKAS 16 (Amendments)	Property, Plant and Equipment	January 1, 2022
HKAS 28 (2011) (Amendments)	Investments in Associates and Joint Ventures	To be announced
HKAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2022
HKFRS 3 (Revised) (Amendments)	Business Combinations	January 1, 2022
HKFRS 10 (Amendments)	Consolidated Financial Statements	To be announced
HKFRS 17	Insurance Contracts	January 1, 2023
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2023
Annual Improvements to HKFRSs 2018 - 2020		January 1, 2022

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2021 and have not been early adopted in these consolidated financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Group.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited
The consolidated financial statements of Hong Kong Telecommunications (HKT) Limited (the "Company") and its subsidiaries (together the "Group"), which are set out on pages 3 to 81, comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include principal accounting policies and other explanatory information.

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

TO THE BOARD OF DIRECTORS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED
(CONTINUED)
(Incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, April 8, 2022

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	Note	2020	**2021**
Revenue	5	15,608	**15,233**
Cost of sales	7(a)	(5,057)	**(4,848)**
General and administrative expenses	7(b)	(5,565)	**(5,239)**
Other losses, net	6	(301)	**(6)**
Finance costs, net	8	(1,344)	**(1,130)**
Share of results of a joint venture		(5)	**(5)**
Profit before income tax	7	3,336	**4,005**
Income tax	10	(482)	**(565)**
Profit for the year		2,854	**3,440**
Profit attributable to:			
Equity holder of the Company		2,852	**3,440**
Non-controlling interests		2	**-**
Profit for the year		2,854	**3,440**

The notes on pages 10 to 81 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	2020	**2021**
Profit for the year	2,854	**3,440**
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	4	**-**
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	(165)	**(49)**
Total comprehensive income for the year	2,689	**3,391**
Attributable to:		
Equity holder of the Company	2,687	**3,391**
Non-controlling interests	2	**-**
Total comprehensive income for the year	2,689	**3,391**

The notes on pages 10 to 81 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021

		2020		
In HK$ million	Note	Attributable to equity holder of the Company	Non-controlling interest	Total equity
As at January 1, 2020		11,823	2	11,825
Total comprehensive income for the year				
Profit for the year		2,852	2	2,854
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		4	-	4
Cash flow hedges:				
- effective portion of changes in fair value	23(c)	(268)	-	(268)
- transfer from equity to consolidated income statement	23(c)	(82)	-	(82)
Costs of hedging	23(c)	181	-	181
Other comprehensive loss		(165)	-	(165)
Total comprehensive income for the year		2,687	2	2,689
Transactions with equity holder				
Final dividend paid in respect of the previous year	11	(2,100)	-	(2,100)
Interim dividend declared and paid in respect of the current year	11	(1,350)	-	(1,350)
Total contributions by and distributions to equity holder		(3,450)	-	(3,450)
Total transactions with equity holder		(3,450)	-	(3,450)
As at December 31, 2020		11,060	4	11,064

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2021

		2021		
In HK$ million	Note	**Attributable to equity holder of the Company**	**Non-controlling interests**	**Total equity**
As at January 1, 2021		**11,060**	**4**	**11,064**
Total comprehensive income for the year				
Profit for the year		**3,440**	**-**	**3,440**
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Cash flow hedges:				
- effective portion of changes in fair value	23(c)	**(2)**	**-**	**(2)**
- transfer from equity to consolidated income statement	23(c)	**8**	**-**	**8**
Costs of hedging	23(c)	**(55)**	**-**	**(55)**
Other comprehensive loss		**(49)**	**-**	**(49)**
Total comprehensive income for the year		**3,391**	**-**	**3,391**
Transactions with equity holder				
Final dividend paid in respect of the previous year	11	**(1,465)**	**-**	**(1,465)**
Interim dividend declared and paid in respect of the current year	11	**(1,373)**	**-**	**(1,373)**
Total contributions by and distributions to equity holder		**(2,838)**	**-**	**(2,838)**
Acquisition of a subsidiary		**-**	**(1)**	**(1)**
Total changes in ownership interest in a subsidiary that do not result in a loss of control		**-**	**(1)**	**(1)**
Total transactions with equity holder		**(2,838)**	**(1)**	**(2,839)**
As at December 31, 2021		**11,613**	**3**	**11,616**

The notes on pages 10 to 81 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

In HK$ million	Note	2020	**2021**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	21,013	**22,260**
Right-of-use assets	13	1,088	**1,018**
Interests in leasehold land	14	202	**189**
Goodwill	15	32,630	**32,630**
Intangible assets	16	9,690	**13,911**
Fulfillment costs		1,379	**1,473**
Customer acquisition costs		352	**346**
Contract assets		105	**85**
Interest in a joint venture	17	249	**190**
Amount due from a fellow subsidiary	4(c)	206	**-**
Financial assets at fair value through profit or loss	18	17	**16**
Derivative financial instruments	23	214	**131**
Other non-current assets	20	133	**48**
		67,278	**72,297**
Current assets			
Inventories	21(a)	544	**752**
Prepayments, deposits and other current assets	21(b)	1,136	**1,215**
Contract assets		271	**378**
Trade receivables, net	21(c)	1,165	**1,726**
Amount due from a related company	4(c)	38	**28**
Amounts due from fellow subsidiaries, the immediate holding company and the ultimate holding company	4(c)	8,509	**12,856**
Financial assets at fair value through profit or loss	18	19	**17**
Tax recoverable		185	**-**
Restricted cash	21(d)	-	**7**
Short-term deposits		538	**472**
Cash and cash equivalents	29(c)	837	**1,045**
		13,242	**18,496**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AS AT DECEMBER 31, 2021

In HK$ million	Note(s)	2020	**2021**
Current liabilities			
Short-term borrowings	21(e)	(1,499)	**-**
Trade payables		(2,601)	**(3,841)**
Accruals and other payables		(2,182)	**(2,222)**
Derivative financial instruments	23	(24)	**-**
Carrier licence fee liabilities	28	(215)	**(315)**
Amounts due to fellow subsidiaries and intermediate holding companies	4(c), 4(d)	(14,041)	**(17,169)**
Advances from customers		(84)	**(93)**
Contract liabilities		(604)	**(675)**
Lease liabilities		(634)	**(576)**
Current income tax liabilities		-	**(249)**
		(21,884)	**(25,140)**
Non-current liabilities			
Long-term borrowings	22	(40,719)	**(43,628)**
Amount due to a fellow subsidiary	4(c)	(1)	**(25)**
Derivative financial instruments	23	(128)	**(128)**
Deferred income tax liabilities	27	(3,943)	**(4,386)**
Carrier licence fee liabilities	28	(627)	**(3,449)**
Contract liabilities		(22)	**(18)**
Lease liabilities		(592)	**(473)**
Other long-term liabilities		(1,540)	**(1,930)**
		(47,572)	**(54,037)**
Net assets		11,064	**11,616**
CAPITAL AND RESERVES			
Share capital	25	9,945	**9,945**
Reserves	26	1,115	**1,668**
Equity attributable to equity holder of the Company		11,060	**11,613**
Non-controlling interests	19(b)	4	**3**
Total equity		11,064	**11,616**

Approved and authorized for issue by the board of directors (the "Board") on April 8, 2022 and signed on behalf of the Board by

Hui Hon Hing, Susanna
Director

Wong Hong Kit
Director

The notes on pages 10 to 81 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

In HK$ million	Note	2020	**2021**
NET CASH GENERATED FROM OPERATING ACTIVITIES	29(a)	7,739	**6,561**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		3	**42**
Purchases of property, plant and equipment		(1,983)	**(1,942)**
Additions of intangible assets		(2,393)	**(2,649)**
Net inflow of cash and cash equivalents in respect of business combination		-	**2**
Investments in financial assets at fair value through profit or loss		-	**(2)**
Loans to a joint venture		(56)	**(41)**
Repayment of loan from a fellow subsidiary		82	**236**
Cash received from lease receivables		7	**7**
(Increase)/Decrease in short-term deposits with maturity more than three months		(52)	**66**
NET CASH USED IN INVESTING ACTIVITIES		(4,392)	**(4,281)**
FINANCING ACTIVITIES			
New borrowings raised	29(b)	19,460	**15,790**
Finance costs paid	29(b)	(772)	**(616)**
Repayments of borrowings	29(b)	(17,637)	**(14,352)**
Payment for lease liabilities (including interest)	29(b)	(870)	**(846)**
Movement in balances with fellow subsidiaries and an intermediate holding company	29(b)	(474)	**798**
Dividends paid to equity holder of the Company	11	(3,450)	**(2,838)**
NET CASH USED IN FINANCING ACTIVITIES		(3,743)	**(2,064)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(396)	**216**
Exchange differences		12	**(8)**
CASH AND CASH EQUIVALENTS			
Beginning of year		1,221	**837**
End of year	29(c)	837	**1,045**

The notes on pages 10 to 81 form part of these consolidated financial statements.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Telecommunications (HKT) Limited (the "Company") is a limited liability company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). The address of its registered office is 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The Company is a direct wholly-owned subsidiary of HKT (Hong Kong) Limited, which is a limited liability company incorporated in the British Virgin Islands, and is an indirect wholly-owned subsidiary of HKT Limited ("HKT"), which is a limited liability company incorporated in the Cayman Islands with its share stapled units (the "Share Stapled Units") jointly issued with the HKT Trust listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider PCCW Limited ("PCCW"), a limited liability company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States, to be the ultimate holding company of the Company.

The principal activities of the Company and its subsidiaries (together the "Group") are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, wholesale mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing and consulting primarily in Hong Kong.

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These 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 ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the principal accounting policies adopted by the Group is set out below.

b. Basis of preparation of the financial statements

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 Group's 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*

The Group has not early adopted any other new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 36.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

b. Basis of preparation of the financial statements *(continued)*

The consolidated financial statements for the year ended December 31, 2021 have been prepared for refinancing purpose. The Company, as a holding company has applied Section 379(3) of the Hong Kong Companies Ordinance (Cap. 622) to prepare company level financial statements as the Company's statutory financial statements for the year ended December 31, 2021. Consequently, these consolidated financial statements and the comparatives do not constitute the Company's statutory financial statements for either of the years ended December 31, 2020 or 2021. Information relating to the Company's statutory financial statements required to be disclosed in accordance with Section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

As the Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's auditor has reported on the company level financial statements 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).

The consolidated financial statements for the year ended December 31, 2021 comprise the financial statements of the Group, and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- financial assets at fair value through profit or loss (see note 2(m)); and
- derivative financial instruments (see note 2(o)).

As at December 31, 2021, the current liabilities of the Group exceeded its current assets by HK$6,644 million. Included in the current liabilities was current portion of contract liabilities of HK$675 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 Group's 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 Group is able to meet its 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 preparation of financial statements in conformity with Hong Kong Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

c. Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKFRS 9 (2014) *Financial Instruments* in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by Hong Kong Financial Reporting Standards.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(h)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

If the business combination is achieved in stages, the acquisition-date carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in the consolidated income statement.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity holder of the Group. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For subsidiaries which have accounting year ends different from the Group, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Group.

Adjustments are made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized profits.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

d. Joint arrangements

The Group applies HKFRS 11 *Joint Arrangements* to all joint arrangements. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Group classifies joint arrangements as joint ventures when the Group has rights to the net assets of the joint arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements using the equity method and is initially recorded at cost. The Group's interest in a joint venture includes goodwill identified on acquisition, net of any accumulated impairment loss and adjust thereafter for the post-acquisition changes in the Group's share of the joint venture's net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the joint venture and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax items of the joint venture's other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment using the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to the consolidated income statement where appropriate.

Adjustments are made to the financial statements of the joint venture when necessary to align its accounting policies to ensure consistency with policies adopted by the Group.

e. Gaining or losing control

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(n)(ii)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(g)); and
- other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the consolidated income statement as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the consolidated income statement on the date of retirement or disposal.

Projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful life
Exchange equipment	5 to 25 years
Transmission plant	5 to 40 years
Other plant and equipment	1 to 20 years

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

g. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

i. Assets leased to the Group

Leases are initially recognized as a right-of-use asset/interest in leasehold land and corresponding liability, where applicable, at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Interest in leasehold land is amortized on a straight-line basis over the lease term.

The Group has elected the practical expedient not to separate lease and non-lease components of certain class of underlying assets and account for whole as a single lease component in the measurement of lease liabilities and right-of-use assets.

Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

ii. Assets leased out by the Group

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Where the Group leases out right-of-use assets ("sublease"), the Group as an intermediate lessor classifies the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

g. Leased assets *(continued)*

ii. Assets leased out by the Group *(continued)*

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(n)(ii). Revenue arising from operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Where the Group leases out assets under finance leases, the present value of lease receipts is recognized as a receivable. Each lease receipt is allocated between the receivable and interest income. The interest element of the lease receipt is recognized in the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

h. Goodwill

Goodwill represents the excess of the cost of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested at least annually for impairment (see note 2(n)(ii)). In respect of the joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in a joint venture.

On disposal of a CGU or part of a CGU, or a joint venture during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

i. Intangible assets (other than goodwill)

i. Carrier licences

Carrier licences to establish and maintain the telecommunications network and to provide telecommunications services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded as an intangible asset together with the related obligations. Where the Group has the right to return a licence and expects to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunications services.

The difference between the discounted value and the total minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated income statement as incurred.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

i. Intangible assets (other than goodwill) *(continued)*

ii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, and design and implement new process or systems, licences and market knowledge are capitalized as intangible assets if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- adequate technical, financial and other resources are available to complete the development and to use the software;
- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and
- the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that do not meet the above criteria are expensed in the consolidated income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 to 10 years.

iii. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(n)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over their estimated useful lives. The following intangible asset with finite useful life is amortized from the date it is available for use and its estimated useful life is as follows:

Trademarks	20 years

The assets' useful lives and their amortization methods are reviewed annually.

j. Fulfillment costs

Direct costs incurred in fulfilling a contract with a customer, which mainly comprise setup and related costs in respect of the Group's telecommunications services, are capitalized as an asset to the extent that the cost generates or enhances resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Fulfillment costs are amortized on a straight-line basis over the expected life of the customer contract.

k. Customer acquisition costs

Incremental costs incurred to obtain a contract with a customer, which mainly comprise sales commission, are capitalized as customer acquisition costs if the Group expects to recover those costs. Costs of obtaining a contract are amortized on a systematic basis over the expected life of the customer contract.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

l. Contract assets/liabilities

Customer pays according to a pre-agreed payment schedule. If the performance obligations fulfilled by the Group exceed the total non-refundable payments received and unconditional rights to contract consideration to date, a contract asset is recognized. If the total non-refundable payments received and unconditional rights to contract consideration to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

Advances from customers represent refundable customer advances, please refer to note 2(t) for the accounting policies.

m. Investments in debt and equity securities

Classification

The Group classifies its investments in debt and equity securities, other than interests in subsidiaries and interest in a joint venture, as:

- those to be measured subsequently at fair value (at either fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL")); and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instrument at FVOCI.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownerships.

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

m. Investments in debt and equity securities *(continued)*

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost is recognized in the consolidated income statement when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest method.

- FVOCI: Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses, interest income using the effective interest method and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to the consolidated income statement and recognized in other gains/(losses), net.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognized and presented net in the consolidated income statement within other gains/(losses), net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment, any balance within the financial assets at FVOCI reserve for these equity investments is reclassified to retained profits. Dividends from such investments continue to be recognized in the consolidated income statement as other gains/(losses), net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses), net in the consolidated income statement as applicable.

Impairment losses (and reversal of impairment losses) on equity instruments measured at FVOCI are not reported separately from other changes in fair value.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Impairment of assets

i. Investments in debt instruments, intercompany receivables and trade and other receivables

The Group assesses on forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost, intercompany receivables and trade and other receivables carried at amortized cost.

For investments in debt instruments, intercompany receivables and other receivables, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forward-looking information. Considerations may include:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of the borrower in the Group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is delinquent and in default status when there are unsettled amounts remaining on the account on the day after the invoice due date.

At each reporting date, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When measuring expected credit losses, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and possibility that no credit loss occurs.

Financial assets are written off when there is no reasonable expectation of recovery. The Group categorizes a financial asset for write off when a debtor fails to make contractual payments for a period greater than predefined limit. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Impairment of assets *(continued)*

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interest in a joint venture; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. Fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

- Recognition of impairment losses

  An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated income statement in the period in which the reversals are recognized.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

o. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(p)).

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is 12 months or less than 12 months. Trading derivatives are classified as current assets or liabilities.

p. Hedging

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement, within finance costs.

When forward contracts are used to hedge forecast transactions, the Group designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedging reserve within equity. The change in the forward element is recognized in the consolidated income statement.

When cross currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognized in the hedging reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognized in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the consolidated income statement, as follows:

- The gain or loss relating to the effective portion of forward contracts is recognized in the consolidated income statement as the hedged item affects profit or loss.

- The gain or loss relating to the effective portion of the cross currency swap contracts hedging borrowings in foreign currency is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

- The gain or loss relating to the effective portion of the interest rate swap contracts hedging variable rate borrowings is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs and affects profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated income statement.

Hedge ineffectiveness is recognized in the consolidated income statement within finance costs.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

q. Inventories

Inventories consist of purchased parts and materials, finished goods and consumable inventories.

Purchased parts and materials and finished goods are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Consumable inventories, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

r. Trade and other receivables

Trade and other receivables and intercompany receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognized at fair value. The Group holds trade and other receivables and intercompany receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 2(n)(i)).

s. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (other than restricted cash), and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition and form an integral part of the Group's cash management.

t. Trade and other payables

Trade payables, intercompany payables, advances from customers and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

u. Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

v. Provisions and contingent liabilities

Provisions are recognized when (i) the Group has a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

w. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Group's activities. Revenue is recognized when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time.

The Group often enters into bundled sale contracts with customers in which, apart from the provision of telecommunications and other services, the Group has certain other performance obligations to customers such as the delivery of equipment, gifts and reward points from the customer loyalty programme operated by a fellow subsidiary offering a variety of goods and services ("Reward Points"). When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The costs of respective equipment and gifts delivered are recognized as cost of sales when the corresponding revenue is recognized.

A financing component, if any, might exist when timing of the payment for goods or services by the customers, differs from the timing of satisfaction of the performance obligation. Such financing component is not significant to the Group.

Telecommunications services comprise local telephony, local data and broadband, international telecommunications, wholesale mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing and consulting.

Local telephony, local data and broadband, international telecommunications and wholesale mobile businesses earn revenue primarily by providing access to and usage of the telecommunications network locally and internationally. As part of the bundled service offerings, the Group also delivers equipment, gifts and Reward Points, which are considered as separate performance obligations.

For the telecommunications services, revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs and is based on the output method, either as the service allowance units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of services to the customer. For service plan based on usage, where monthly usage exceeds the allowance, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognized when the customer exercises the option. Income from other telecommunications services are recognized when services are rendered. Customers are invoiced in advance on a monthly basis or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

For the sales of the equipment and gifts, revenue is generally recognized when control passes to the customer, being when the products are delivered to and accepted by the customer. The customer has full discretion over the equipment and gifts and there are no unfulfilled obligations that can affect the customer's acceptance of those goods. Customers are invoiced immediately or invoiced according to the pre-agreed payment schedule as set out in the customer contracts.

When the Reward Points are awarded to the members, such revenue at their relative stand-alone selling price is deferred as a liability until the Reward Points are redeemed. Breakage, referring to Reward Points that are expected to expire, is recognized and determined based on assumptions such as historical experience, future redemption pattern and programme design.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

w. Revenue recognition *(continued)*

Revenue from enterprise solutions services is recognized over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Input method is used to measure the progress as it depicts the Group's performance in transferring the control of the asset. The progress is measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. Customers make settlement periodically throughout the contract period according to the pre-agreed payment schedule. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

x. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

y. Dividend income

Dividend income is recognized when the member's right to receive payment is established.

z. Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

aa. Cost of sales and general and administrative expenses

General and administrative expenses represent operating costs incurred other than cost of sales. Cost of sales mainly includes cost of inventories sold and connectivity costs; while general and administrative expenses mainly include depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of land lease premium, amortization of intangible assets, amortization of fulfillment costs, amortization of customer acquisition costs, impairment loss for trade receivables and staff costs.

ab. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous years.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ab. Income tax *(continued)*

iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

ac. Employee benefits

i. Short-term employee benefits

Salaries, annual bonuses, annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ac. Employee benefits *(continued)*

ii. Retirement benefits

The Group participates in defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by contributions from the relevant companies in the Group.

For defined contribution retirement schemes, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the defined contribution retirement schemes are recognized as an expense in the consolidated income statement in the period to which the contributions relate.

iii. Share-based payments

PCCW, the HKT Trust and HKT operate share option schemes where employees of the Group (and including directors) are granted options to acquire shares of PCCW (the "PCCW Shares") and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of options to acquire PCCW Shares and Share Stapled Units is recognized as staff costs in the consolidated income statement with a corresponding increase in a capital contribution from members in respect of employee share-based compensation under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of options that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity. On vesting date, the amount recognized as staff costs regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity). The equity amount remains in the capital contribution from members in respect of employee share-based compensation under equity.

Share Stapled Units may be granted to employees at nil consideration under HKT's Share Stapled Units award schemes, under which the awarded Share Stapled Units are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or purchased from the open market (the "HKT Share Stapled Units Purchase Scheme").

PCCW also grants PCCW Shares to employees of PCCW and its participating companies at nil consideration under its share award schemes, under which the awarded PCCW Shares are either newly issued at issue price (the "PCCW Subscription Scheme") or purchased from the open market (the "PCCW Purchase Scheme").

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ac. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

Awards under the share award schemes are accounted for as cash-settled share-based payments. The fair value of the awarded PCCW Shares and Share Stapled Units representing the quoted market price of PCCW Shares and Share Stapled Units purchased from the open market under the PCCW Purchase Scheme/HKT Share Stapled Units Purchase Scheme and the issue price of PCCW Shares and Share Stapled Units under the PCCW Subscription Scheme/HKT Share Stapled Units Subscription Scheme is recognized as financial assets at FVPL, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW Shares and Share Stapled Units is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW Shares and Share Stapled Units that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW Shares and Share Stapled Units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW Shares and Share Stapled Units recognized in the financial assets at FVPL is offset with the obligation.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the number of employees affected, or individual employees have been advised of the specific terms.

ad. Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the functional currency of the Company and the presentation currency of the Group.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates when the fair values are determined. Exchange differences arising on translation of non-monetary assets and liabilities, such as equity instruments at FVPL, are reported as part of the fair value gain or loss in the consolidated income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Items of foreign operations in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relates to that foreign operation is included in the calculation of the profit or loss on disposal.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ae. Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

v. the party is a close family member of a party referred to in note i above or is an entity under the control, joint control or significant influence of such party;

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group; or

vii. the entity, or any member of the Group of which it is a part, provides key management personnel services to the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

af. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expense and segment performance include transactions between segments.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment and interests in leasehold land) that are expected to be used for more than one year.

ag. Dividend distribution

Dividend distribution to the Company's sole member is recognized as a liability in the consolidated financial statements in the period in which the dividend is approved by the Board or the Company's sole member, where appropriate.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 15 and 31 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

i. Impairment of assets (other than intercompany receivables and trade and other receivables)

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interest in a joint venture; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable amount, representing the greater of the asset's fair value less costs of disposal or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving a reasonable estimate of the recoverable amount, the Group may perform such assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of any asset.

ii. Revenue recognition

Under certain arrangements, apart from the provision of telecommunications and other services, the Group has certain other performance obligations to customers such as the delivery of equipment, gifts and Reward Points. When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative stand-alone selling prices. The Group is required to exercise considerable judgement in relation to estimating the stand-alone selling price.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

iii. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and business plans. In the event that the Group's estimates of projected future taxable income and benefits from available business plans are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

iv. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are queries raised by the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these queries or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

v. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

The Group has significant property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs. The Group is required to estimate the lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The lives are estimated at the time of purchase of these assets or direct costs incurred in fulfilling or acquiring a contract with a customer after considering future technology changes, business developments, the Group's strategies and expected lives of customer contracts. The Group performs annual reviews to assess the appropriateness of the estimated lives. Such reviews take into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancements in technology. The Group extends or shortens the lives according to the results of the reviews.

vi. Lease term and discount rate determination

In determining the lease term, management considers facts and circumstances such as conditions of the Group's existing leases, future technology changes, business developments and the Group's strategies, that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows are not included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. As at December 31, 2021, potential future undiscounted cash outflows of HK$4 million (2020: HK$3 million) have not been included in the lease liabilities because it is not reasonably certain that the lease will be extended (or not terminated).

In determining the discount rate, the Group is required to exercise considerable judgement by taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the lease modification (if any).

4 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

In HK$ million	Note	2020	**2021**
Telecommunications service fees and interest income received or receivable from a joint venture	a	26	**21**
Telecommunications service fees and interest expense paid or payable to a joint venture	a	133	**124**
Telecommunications service fees, connectivity service fees, data center service fees and equipment sales received or receivable from related companies	a	13	**23**
Rental charges and data center service fees paid or payable to related companies	a	22	**27**
Telecommunications service fees, IT and logistics charges, system development charges, rental charges, management fee, equipment sales, interest income and other costs recharge received or receivable from fellow subsidiaries	a	3,472	**3,629**
Telecommunications service fees, connectivity service fees and equipment sales received or receivable from related parties under a common shareholder with the Company	a	31	**29**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy service charges, inventories purchase costs, rental and facilities management charges, management fee, interest expense and other costs recharge paid or payable to fellow subsidiaries	a	3,044	**2,606**
Interest expense paid or payable to an intermediate holding company	a	88	**19**

a. The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

b. Details of key management compensation

Key management compensation for the year ended December 31, 2021 was borne by a fellow subsidiary of the Company (2020: same).

c. Balances with a related company, fellow subsidiaries, the immediate holding company and the ultimate holding company

As at December 31, 2021, other than loans payable of Renminbi ("RMB") 21 million (approximately HK$25 million) to a fellow subsidiary which bear interest at 3.75% per annum classified as a non-current liability which are repayable in 2023 and 2024, a loan payable of United States dollar ("US$") 26 million (approximately HK$203 million) to a fellow subsidiary which bears interest at United States Interbank Offered Rate ("US LIBOR") per annum and is repayable on demand, and loans payable of RMB 32 million (approximately HK$40 million) to fellow subsidiaries which bear interest at 2.93% per annum and are repayable within one year, the balance with a related company, the immediate holding company, the ultimate holding company and the remaining balances with fellow subsidiaries are unsecured, non-interest bearing, and have no fixed repayment terms.

4 **RELATED PARTY TRANSACTIONS** *(CONTINUED)*

c. Balances with a related company, fellow subsidiaries, the immediate holding company and the ultimate holding company *(continued)*

As at December 31, 2020, other than a loan receivable of Pound Sterling 20 million (approximately HK$206 million) from a fellow subsidiary which bears interest at London Interbank Offered Rate plus 1% per annum classified as a non-current asset which is repayable in 2022, a loan payable of RMB 1 million (approximately HK$1 million) to a fellow subsidiary which bears interest at 3.75% per annum classified as a non-current liability which is repayable in 2023, a loan payable of US$20 million (approximately HK$155 million) to a fellow subsidiary which bears interest at US LIBOR per annum and is repayable within one year, and loans payable of RMB 32 million (approximately HK$38 million) to fellow subsidiaries which bear interest at 2.93% per annum and are repayable within one year, the balance with a related company and the remaining balances with fellow subsidiaries are unsecured, non-interest bearing, and have no fixed repayment terms.

d. Balances with intermediate holding companies

The balances with intermediate holding companies are unsecured, non-interest bearing, and have no fixed repayment terms, except for a loan payable of HK$4,434 million (2020: HK$4,994 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2020: same) and is repayable within one year (2020: same).

5 **REVENUE AND SEGMENT INFORMATION**

In HK$ million	2020	**2021**
Revenue from contracts with customers:		
Timing of revenue recognition		
At a point in time	1,873	**1,933**
Over time	13,668	**13,245**
Revenue from other sources:		
Rental income	67	**55**
	15,608	**15,233**

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	584	**604**

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,	8,721	**9,565**

As at December 31, 2021, management expected that 58% and 23% (2020: 58% and 27%) 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: 15%) would be recognized as revenue in the periods afterwards. The amount disclosed above does not include unsatisfied performance obligation that is related to the Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

5 REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

c. Segment information

The directors consider that the Group as a whole is an operating segment since the Group is only engaged in local and international telecommunications and related business. No geographical information has been disclosed as the majority of the Group's operating activities are carried out in Hong Kong. The Group's assets located and operating revenue derived from activities outside Hong Kong are less than 5% (2020: less than 5%) of the Group's assets and operating revenue, respectively.

6 OTHER LOSSES, NET

In HK$ million	2020	**2021**
Write-off of intangible assets *(note 16)*	302	**-**
Others	(1)	**6**
	301	**6**

7 PROFIT BEFORE INCOME TAX

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

a. Cost of sales

In HK$ million	2020	**2021**
Cost of inventories sold	1,715	**1,733**
Connectivity costs	592	**629**
(Write-back of provision for)/Provision for inventory obsolescence, net	(10)	**1**
Others	2,760	**2,485**
	5,057	**4,848**

b. General and administrative expenses

In HK$ million	2020	**2021**
Staff costs	322	**326**
Impairment loss for trade receivables	89	**63**
Depreciation of property, plant and equipment	710	**757**
Depreciation of right-of-use assets – land and buildings	801	**774**
Depreciation of right-of-use assets – network capacity and equipment	40	**25**
Amortization of land lease premium – interests in leasehold land	13	**13**
Amortization of intangible assets	1,022	**1,249**
Amortization of fulfillment costs	479	**385**
Amortization of customer acquisition costs	389	**384**
Exchange losses/(gains), net	90	**(25)**
Less: cash flow hedges: transfer from equity	(73)	**26**
Gain on disposal of property, plant and equipment, net	(3)	**(23)**
Auditor's remuneration	8	**6**
Others	1,678	**1,279**
	5,565	**5,239**

8 FINANCE COSTS, NET

In HK$ million	2020	**2021**
Interest expense, excluding interest expense on lease liabilities	(1,307)	**(1,183)**
Interest expense on lease liabilities	(39)	**(35)**
Notional accretion on carrier licence fee liabilities	(36)	**(64)**
Other finance costs	(94)	**(25)**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk	4	**24**
Hedge ineffectiveness: interest rate swap contracts – cash flow hedges for interest rate risk	(2)	**4**
Cash flow hedges: transfer from equity	9	**18**
Unwind of interest rate swap contracts	-	**39**
Impact of re-designation of fair value hedges	(16)	**(16)**
	(1,481)	**(1,238)**
Interest capitalized in property, plant and equipment and intangible assets *(note a)*	105	**92**
Total finance costs	(1,376)	**(1,146)**
Interest income	29	**13**
Interest income from net investment in leases	3	**3**
Total interest income	32	**16**
Finance costs, net	(1,344)	**(1,130)**

a. The capitalization rate used to determine the amount of interest eligible for capitalization in property, plant and equipment and intangible assets ranged from 2.87% to 3.08% for the year ended December 31, 2021 (2020: from 2.88% to 3.49%).

9 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended December 31, 2021 were borne by a fellow subsidiary of the Company (2020: same).

10 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2020	**2021**
Current income tax:		
Hong Kong profits tax		
- provision for current year	72	**121**
- under provision in respect of prior years	-	**1**
Movement of deferred income tax *(note 27(a))*	410	**443**
	482	**565**

Hong Kong profits tax is provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year.

10 INCOME TAX *(CONTINUED)*

a. Income tax in the consolidated income statement represents: *(continued)*

Overseas tax is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

b. Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK$ million	2020	**2021**
Profit before income tax	3,336	**4,005**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2020: 16.5%)	550	**661**
Income not subject to tax	(4)	**(21)**
Expenses not deductible for tax purposes	21	**20**
Tax loss not recognized	1	**3**
Under provision in respect of prior years	-	**1**
Utilization of previously unrecognized tax losses	(4)	**(2)**
Losses of a joint venture not deductible for tax purposes	1	**1**
Corporate income tax incentives	(83)	**(98)**
Income tax expense	482	**565**

11 DIVIDENDS

In HK$ million	2020	**2021**
Interim dividend declared and paid in respect of the current year of approximately 55.18 HK cents (2020: approximately 54.26 HK cents) per ordinary share of the Company	1,350	**1,373**
Final dividend declared in respect of the previous financial year, approved and paid during the year of approximately 58.88 HK cents (2020: approximately 84.40 HK cents) per ordinary share of the Company	2,100	**1,465**
	3,450	**2,838**
Final dividend of approximately 82.39 HK cents (2020: approximately 58.88 HK cents) per ordinary share of the Company proposed after the end of the reporting period	1,465	**2,050**

The final 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.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT

	2020					
In HK$ million	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,389	21,364	23,164	13,949	1,858	61,724
Additions	-	286	561	228	968	2,043
Disposals	-	(310)	(3)	(63)	-	(376)
Transfers	-	401	932	145	(1,478)	-
Exchange differences	-	-	-	2	-	2
End of year	1,389	21,741	24,654	14,261	1,348	63,393
Accumulated depreciation and impairment						
Beginning of year	742	16,427	14,149	10,726	-	42,044
Charge for the year	29	244	318	119	-	710
Disposals	-	(310)	(3)	(63)	-	(376)
Exchange differences	-	-	-	2	-	2
End of year	771	16,361	14,464	10,784	-	42,380
Net book value						
End of year	618	5,380	10,190	3,477	1,348	21,013
Beginning of year	647	4,937	9,015	3,223	1,858	19,680

12 PROPERTY, PLANT AND EQUIPMENT (*CONTINUED*)

	2021					
In HK$ million	**Buildings**	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,389**	**21,741**	**24,654**	**14,261**	**1,348**	**63,393**
Additions	**-**	**315**	**423**	**304**	**980**	**2,022**
Disposals	**(36)**	**(296)**	**-**	**(22)**	**-**	**(354)**
Transfers	**-**	**122**	**465**	**233**	**(820)**	**-**
End of year	**1,353**	**21,882**	**25,542**	**14,776**	**1,508**	**65,061**
Accumulated depreciation and impairment						
Beginning of year	**771**	**16,361**	**14,464**	**10,784**	**-**	**42,380**
Charge for the year	**28**	**271**	**358**	**100**	**-**	**757**
Disposals	**(18)**	**(296)**	**-**	**(22)**	**-**	**(336)**
End of year	**781**	**16,336**	**14,822**	**10,862**	**-**	**42,801**
Net book value						
End of year	**572**	**5,546**	**10,720**	**3,914**	**1,508**	**22,260**
Beginning of year	**618**	**5,380**	**10,190**	**3,477**	**1,348**	**21,013**

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

13 RIGHT-OF-USE ASSETS

In HK$ million	2020	**2021**
Land and buildings	1,035	**973**
Network capacity and equipment	53	**45**
Total	1,088	**1,018**

The Group obtains right to control the use of various land and buildings, and network capacity and equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 14 years for land and buildings, and from 1 to 6 years for network capacity and equipment. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes. As at December 31, 2020, the Group also subleased certain buildings whose lease terms were for the whole of the remaining term of the head leases and had classified the subleases as finance leases.

Additions to the right-of-use assets during the year ended December 31, 2021 were HK$738 million (2020: HK$814 million).

During the year ended December 31, 2021, total cash outflow for leases amounted to HK$869 million (2020: HK$916 million), which included cash outflow for short-term lease expenses amounted to HK$23 million (2020: HK$46 million) that were recognized in the consolidated income statement.

The depreciation charge for the year is included in general and administrative expenses in the consolidated income statement.

14 INTERESTS IN LEASEHOLD LAND

In HK$ million	2020	**2021**
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	321	**334**
Charge for the year	13	**13**
End of year	334	**347**
Net book value		
End of year	202	**189**
Beginning of year	215	**202**

15 GOODWILL

In HK$ million	2020	**2021**
Cost		
Beginning and end of year	32,630	**32,630**

The recoverable amount of the CGU is determined based on value-in-use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a 5-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rate stated below.

The key assumptions used for value-in-use calculation in 2021 were as follows:

	2020				**2021**			
	Average revenue growth rate	Average EBITDA growth rate	Terminal growth rate	Pre-tax discount rate	**Average revenue growth rate**	**Average EBITDA growth rate**	**Terminal growth rate**	**Pre-tax discount rate**
Local telephony and data services	1%	1%	1%	8%	**2%**	**2%**	**1%**	**8%**

These assumptions were used for the analysis of the CGU.

There was no impairment required from the review on goodwill. A reasonably possible change in assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered necessary.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used were consistent with the forecasts included in industry reports. The terminal growth rate did not exceed the long-term average growth rate for the business in which the CGU operates.

16 INTANGIBLE ASSETS

In HK$ million	Trademarks	Carrier licences	Software	Others	Total
			2020		
Cost					
Beginning of year	459	4,872	6,431	-	11,762
Additions	-	364	2,028	8	2,400
Write-off	-	(98)	(312)	-	(410)
End of year	459	5,138	8,147	8	13,752
Accumulated amortization					
Beginning of year	256	1,612	1,280	-	3,148
Charge for the year	23	439	560	-	1,022
Write-off	-	(98)	(10)	-	(108)
End of year	279	1,953	1,830	-	4,062
Net book value					
End of year	180	3,185	6,317	8	9,690
Beginning of year	203	3,260	5,151	-	8,614

In HK$ million	**Trademarks**	**Carrier licences**	**Software**	**Others**	**Total**
			2021		
Cost					
Beginning of year	**459**	**5,138**	**8,147**	**8**	**13,752**
Additions	**-**	**3,355**	**2,115**	**-**	**5,470**
Write-off	**-**	**(169)**	**-**	**-**	**(169)**
End of year	**459**	**8,324**	**10,262**	**8**	**19,053**
Accumulated amortization					
Beginning of year	**279**	**1,953**	**1,830**	**-**	**4,062**
Charge for the year	**23**	**553**	**673**	**-**	**1,249**
Write-off	**-**	**(169)**	**-**	**-**	**(169)**
End of year	**302**	**2,337**	**2,503**	**-**	**5,142**
Net book value					
End of year	**157**	**5,987**	**7,759**	**8**	**13,911**
Beginning of year	**180**	**3,185**	**6,317**	**8**	**9,690**

The amortization charge for the year is included in general and administrative expenses in the consolidated income statement.

As at December 31, 2020 and 2021, no impairment loss was recognized for the intangible assets. Impairment assessments for intangible assets are performed as part of the impairment assessments for the CGU. For details of the accounting policies and the impairment assessments, please refer to notes 2(n)(ii) and 15.

17 INTEREST IN A JOINT VENTURE

In HK$ million	2020	**2021**
Share of net liabilities of a joint venture	(47)	**(52)**
Loan due from a joint venture	296	**242**
	249	**190**
Investment at cost, unlisted shares	-	**-**

As at December 31, 2021, the loan due from a joint venture of HK$242 million (2020: HK$296 million) bears interest at HIBOR plus 3% per annum (2020: same). The loan is unsecured and has no fixed terms of repayment. The amount is considered as part of the interest in the joint venture.

a. Particulars of the joint venture of the Group as at December 31, 2021 are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	-	50%	Equity

GBL is a strategic partnership of the Group, providing access to advanced connectivity services in Hong Kong for the development of mobile business.

GBL is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of the joint venture

As at December 31, 2021, the Group's commitments in respect of the joint venture are as follows:

In HK$ million	2020	**2021**
The Group's commitments to provide funding	29	**46**
The Group's share of joint venture's capital commitments authorized and contracted for acquisition of property, plant and equipment	6	**9**

There were no contingent liabilities relating to the Group's interest in the joint venture. As at December 31, 2021, the Group had no share of contingent liabilities related to the joint venture (2020: nil).

17 INTEREST IN A JOINT VENTURE *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint venture

Set out below is the summarized unaudited financial information of GBL, the joint venture of the Group and being accounted for using the equity method.

In HK$ million	As at December 31, 2020	**2021**
Non-current assets	698	**594**
Current assets		
Cash and cash equivalents	13	**4**
Other current assets (excluding cash and cash equivalents)	27	**23**
Total current assets	40	**27**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(320)	**(241)**
Other current liabilities (including trade payables, accruals and other payables)	(60)	**(145)**
Total current liabilities	(380)	**(386)**
Non-current liabilities		
Financial liabilities	(419)	**(307)**
Other non-current liabilities	(33)	**(32)**
Total non-current liabilities	(452)	**(339)**
Net liabilities	(94)	**(104)**
Equity attributable to equity holders	(94)	**(104)**

In HK$ million	For the year ended December 31, 2020	**2021**
Revenue	236	**229**
Depreciation and amortization	(94)	**(94)**
Interest expense	(30)	**(19)**
Profit before income tax	2	**1**
Income tax	(12)	**(11)**
Loss after income tax and total comprehensive loss	(10)	**(10)**
Dividend received from the joint venture	-	**-**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) and adjusted for differences in accounting policies between the Group and the joint venture, if any.

17 INTEREST IN A JOINT VENTURE *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of the Group's joint venture

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in GBL, the Group's joint venture.

In HK$ million	2020	**2021**
Net liabilities		
Beginning of year	(84)	**(94)**
Loss and total comprehensive loss for the year	(10)	**(10)**
End of year	(94)	**(104)**
Interest in a joint venture	50%	**50%**
	(47)	**(52)**
Loan due from a joint venture	296	**242**
Carrying amount	249	**190**

During the year ended December 31, 2021, the Group did not have any unrecognized share of losses of the joint venture (2020: nil). As at December 31, 2021, there was no accumulated share of losses of the joint venture unrecognized by the Group (2020: nil).

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2020	**2021**
Listed securities	28	**23**
Less: securities held for employee share award schemes to be vested within one year classified as current assets	(19)	**(17)**
Listed securities (non-current)	9	**6**
Unlisted securities (non-current)	8	**10**
Total non-current portion	17	**16**

Financial assets at FVPL mainly comprise:

- equity instrument that the Group does not elect to measure at FVOCI; and

- PCCW Shares and Share Stapled Units acquired and subscribed under the PCCW Purchase Scheme/PCCW Subscription Scheme and HKT Share Stapled Units Purchase Scheme/HKT Share Stapled Units Subscription Scheme, respectively. Refer to note 24(b)(ii) for details of the share award schemes of PCCW and HKT.

During the year ended December 31, 2021, there were additions of unlisted securities recognized as financial assets at FVPL of HK$2 million (2020: nil).

19 INTERESTS IN SUBSIDIARIES

a. Particulars of the principal subsidiaries of the Company as at December 31, 2021 are as follows:

Company name	Place of incorporation/ operations	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
北京訊通通信服務有限公司 (Beijing Xun Tong Communications Services Limited[1]) ("Xun Tong")	The People's Republic of China (the "PRC")	RMB10,000,000	50%[2]	-	Provision of telecommunications services, internet information services and computer system services
Chuang Xin Group Limited	British Virgin Islands	US$1	100%	-	Investment holding
eSmartHealth Limited	Hong Kong	HK$1	-	100%	Sale of electronic digital devices and provision of health data management services
HKT Capital No. 1 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
HKT Capital No. 2 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
HKT Capital No. 3 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
HKT Capital No. 4 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
HKT Capital No. 5 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
HKT CSP Limited	Hong Kong	HK$1	100%	-	Provision of customer services and online sales of products and services
PCCW-HKT Capital No.5 Limited	British Virgin Islands	US$1	100%	-	Notes issuer
PCCW-HKT Consumer Services Limited	Hong Kong	HK$2	-	100%	Investment holding
電訊盈科科技(北京)有限公司[3] (PCCW Technology (Beijing) Limited[1])	The PRC	RMB40,000,000	100%	-	System integration, software development and technical services consultancy
Red Fortune Investments Limited	British Virgin Islands	US$1	100%	-	Investment holding
廣東電盈信息科技有限公司 (PCCW Information Communication Technologies Co. Ltd.[1])	The PRC	HK$12,000,000	50%[2]	-	Internet data center/internet services provider licensing in China

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

19 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Particulars of the principal subsidiaries of the Company as at December 31, 2021 are as follows: *(continued)*

Notes:

1. Unofficial company name.
2. The equity interest held by non-controlling interest is 50% as at December 31, 2021.
3. Represents a wholly-foreign owned enterprise.

b. Non-controlling interests of the Group's subsidiaries

The total of non-controlling interests as at December 31, 2021 was HK$3 million (2020: HK$4 million), which was mainly attributable to non-controlling interest in Xun Tong.

20 OTHER NON-CURRENT ASSETS

In HK$ million	2020	**2021**
Prepayments	1	**37**
Deposits	30	**11**
Others	102	**-**
	133	**48**

21 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	2020	**2021**
Purchased parts and materials	450	**686**
Finished goods	39	**25**
Consumable inventories	55	**41**
	544	**752**

b. Prepayments, deposits and other current assets

In HK$ million	2020	**2021**
Prepayments	318	**339**
Deposits	233	**241**
Other current assets	585	**635**
	1,136	**1,215**

c. Trade receivables, net

In HK$ million	2020	**2021**
Trade receivables *(note i)*	1,211	**1,771**
Less: loss allowance *(note ii)*	(46)	**(45)**
Trade receivables, net	1,165	**1,726**

The balance represents amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days from the date of invoice and therefore are all classified as current. Details about the Group's impairment policies are provided in note 2(n)(i).

21 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Trade receivables, net *(continued)*

As at December 31, 2021, included in trade receivables, net were amounts due from related parties of HK$24 million (2020: HK$17 million).

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

In HK$ million	2020	**2021**
1 – 30 days	683	**1,227**
31 – 60 days	204	**225**
61 – 90 days	103	**65**
91 – 120 days	23	**30**
Over 120 days	198	**224**
	1,211	**1,771**

ii. Impairment for trade receivables

The Group applies the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material. On that basis, the loss allowance as at December 31, 2021 was determined as follows:

Expected credit loss rate	2020	**2021**
Current	2%	**1%**
1 – 120 days past due	4%	**5%**
Over 120 days past due	42%	**17%**

The movements in the loss allowance during the year were as follows:

In HK$ million	2020	**2021**
Beginning of year	41	**46**
Net impairment loss recognized	89	**63**
Uncollectible amounts written off	(84)	**(64)**
End of year	46	**45**

d. Restricted cash

As at December 31, 2021, cash balance of HK$7 million (2020: nil) has been received from and restricted for the use of certain customers.

21 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Short-term borrowings

In HK$ million	2020	**2021**
Bank borrowings	1,499	**-**
Secured	-	**-**
Unsecured	1,499	**-**

Refer to note 34 for details of the Group's banking facilities.

22 LONG-TERM BORROWINGS

In HK$ million	2020	**2021**
Repayable within a period		
– over one year, but not exceeding two years	2,640	**9,592**
– over two years, but not exceeding five years	24,283	**26,111**
– over five years	13,796	**7,925**
	40,719	**43,628**
Representing:		
US$500 million 3.75% guaranteed notes due 2023 *(note a)*	3,824	**3,870**
US$300 million zero coupon guaranteed notes due 2030 *(note b)*	2,314	**2,329**
US$500 million 3.625% guaranteed notes due 2025 *(note c)*	3,850	**3,874**
EUR200 million 1.65% guaranteed notes due 2027 *(note d)*	1,878	**1,752**
US$750 million 3.00% guaranteed notes due 2026 *(note e)*	5,789	**5,828**
US$500 million 3.25% guaranteed notes due 2029 *(note f)*	3,815	**3,844**
Bank borrowings *(note g)*	19,249	**22,131**
	40,719	**43,628**
Secured	-	**-**
Unsecured	40,719	**43,628**

a. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, a direct wholly-owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKT Group Holdings Limited ("HKTGH") and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

b. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

22 LONG-TERM BORROWINGS *(CONTINUED)*

c. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, a direct wholly-owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

d. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, a direct wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

e. US$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

f. US$500 million 3.25% guaranteed notes due 2029

On September 30, 2019, HKT Capital No. 5 Limited, a direct wholly-owned subsidiary of the Company, issued US$500 million 3.25% guaranteed notes due 2029, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

g. Refer to note 34 for details of the Group's banking facilities.

23 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2020	**2021**
Non-current assets		
Cross currency swap contracts – cash flow hedges for foreign currency risk *(note a)*	214	**131**
Current liabilities		
Foreign exchange forward contracts	(3)	-
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	(21)	-
	(24)	-
Non-current liabilities		
Cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk *(note a)*	(37)	**(31)**
Interest rate swap contract – cash flow hedge for interest rate risk *(note b)*	(91)	**(97)**
	(128)	**(128)**

Derivatives are mainly used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at FVPL.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

Hedge ineffectiveness for the Group's cross currency swap, foreign exchange forward and interest rate swap contracts may occur due to:

- differences in critical terms between the hedged item and the hedging instrument; and
- changes in credit risk of the derivative counterparty.

23 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Cash flow hedges for foreign currency risk

For certain borrowings denominated in foreign currencies, the Group has entered into cross currency swap contracts and foreign exchange forward contracts to hedge the foreign currency risk. The Group performed qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedging instruments.

The effects of the foreign currency related hedging instruments outstanding at the end of the reporting period on the Group's financial position and performance are as follows:

	2020	**2021**
Net carrying amount (assets)	HK$177 million	**HK$100 million**
Notional amount	EUR200 million and US$2,220 million	**EUR200 million and US$2,720 million**
Maturity date	March 2023 to September 2029	**March 2023 to September 2029**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$210 million)	**(HK$18 million)**
Change# in value of the hedged items during the year	HK$212 million	**HK$42 million**
Weighted average hedged exchange rate for the year	EUR1:HK$8.32 US$1:HK$7.79	**EUR1:HK$8.32 US$1:HK$7.79**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

b. Cash flow hedges for interest rate risk

For certain borrowings subject to cash flow interest rate risk, the Group has entered into floating-to-fixed interest rate swap contracts. The Group performed qualitative assessment of hedge effectiveness. As the interest rate swap contracts have similar critical terms as the hedged items, such as notional amounts, maturity dates and payment dates, the economic relationship exists between the hedged items and the hedging instruments.

The effects of the interest rate related hedging instruments outstanding at the end of the reporting period on the Group's financial position and performance are as follows:

	2020	**2021**
Net carrying amount (liabilities)	(HK$112 million)	**(HK$97 million)**
Notional amount	HK$4,450 million	**HK$1,000 million**
Maturity date	March 2021 to March 2023	**March 2023**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	(HK$100 million)	**HK$23 million**
Change# in value of the hedged items during the year	HK$96 million	**(HK$23 million)**
Weighted average receive leg/pay leg interest ratio	0.61	**0.29**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

23 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Hedging reserve and costs of hedging reserve

The Group's hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK$ million	Cash flow hedges for foreign currency risk	Cash flow hedges for interest rate risk	Total
Hedging reserve			
As at January 1, 2020	391	47	438
Cash flow hedges:			
- effective portion of changes in fair value	(164)	(104)	(268)
- transfer from equity to consolidated income statement	(92)	3	(89)
As at December 31, 2020 and January 1, 2021	**135**	**(54)**	**81**
Cash flow hedges:			
- effective portion of changes in fair value	**(42)**	**40**	**(2)**
- transfer from equity to consolidated income statement	**(7)**	**3**	**(4)**
As at December 31, 2021	**86**	**(11)**	**75**

In HK$ million	Cash flow hedges for foreign currency risk
Costs of hedging reserve	
As at January 1, 2020	(158)
Cash flow hedges:	
- transfer from equity to consolidated income statement	7
Costs of hedging	181
As at December 31, 2020 and January 1, 2021	**30**
Cash flow hedges:	
- transfer from equity to consolidated income statement	**12**
Costs of hedging	**(55)**
As at December 31, 2021	**(13)**

24 EMPLOYEE BENEFITS

a. Employee retirement benefits – Defined contribution retirement schemes

The Group participates in defined contribution retirement schemes, including the Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a current cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

During the year ended December 31, 2021, the Group made contributions of HK$124 million (2020: HK$140 million) to the defined contribution retirement schemes.

Forfeited contributions totaling HK$9 million (2020: HK$4 million) were utilized during the year ended December 31, 2021 to reduce contributions and no forfeited contribution (2020: nil) was available as at December 31, 2021.

b. Equity compensation benefits

PCCW, the HKT Trust and HKT operate the following share option schemes and share award schemes:

Share option schemes

- Share option scheme of PCCW adopted on May 8, 2014 (the “PCCW 2014 Scheme”).

- Share Stapled Units option scheme of the HKT Trust and HKT conditionally adopted on November 7, 2011 and terminated on May 7, 2021 (the “2011-2021 Option Scheme”), and a new Share Stapled Units option scheme of the HKT Trust and HKT adopted on May 7, 2021 (the “2021-2031 Option Scheme”).

Share award schemes

- Share award schemes of PCCW namely the PCCW Purchase Scheme and the PCCW Subscription Scheme (collectively the “PCCW Share Award Schemes”).

- Share Stapled Units award schemes of HKT namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the “Share Stapled Units Award Schemes”).

i. Share option schemes

No share options/Share Stapled Unit options have been granted under the PCCW 2014 Scheme, the 2011-2021 Option Scheme and the 2021-2031 Option Scheme since their adoption and up to and including its date of termination (in respect of the 2011-2021 Option Scheme) and December 31, 2021 (in respect of the PCCW 2014 Scheme and the 2021-2031 Option Scheme).

ii. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the Share Stapled Units Award Schemes, each scheme provides that prior to the vesting of the awards under the relevant schemes to selected participants (including any director or employee of PCCW and its participating companies for the PCCW Share Award Schemes, and any director or employee of HKT or any of its subsidiaries for the Share Stapled Units Award Schemes), the relevant PCCW Shares/Share Stapled Units will be held in trust by the trustee for such selected participants, and will be vested over a period of time determined by the respective approving body, provided that each selected participant shall remain at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or a director of PCCW, HKT, the relevant participating company or subsidiary, and satisfies any other conditions specified at the time the award is made, notwithstanding that the respective approving body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the relevant schemes.

24 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

During the year ended December 31, 2021, share-based compensation expenses in respect of the PCCW Share Award Schemes of HK$9 million (2020: HK$13 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

During the year ended December 31, 2021, share-based compensation expenses in respect of the Share Stapled Units Award Schemes of HK$10 million (2020: HK$11 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

(1) Movements in the number of PCCW Shares held under the PCCW Share Award Schemes and the Share Stapled Units held under the Share Stapled Units Award Schemes

	Number of PCCW Shares	
	2020	**2021**
PCCW Purchase Scheme:		
Beginning of year	254,249	**126,423**
Purchase from the market by the trustee at weighted average market price of HK$4.24 (2020: HK$4.72) per PCCW Share	126,423	**327,745**
PCCW Shares vested	(254,249)	**(234,784)**
End of year	126,423	**219,384**
PCCW Subscription Scheme:		
Beginning of year	1,066,142	**3,194,808**
PCCW Shares vested	(2,081,431)	**(2,036,680)**
Transfer of PCCW Shares from group companies	4,210,097	**1,320,456**
End of year	3,194,808	**2,478,584**

	Number of Share Stapled Units	
	2020	**2021**
HKT Share Stapled Units Purchase Scheme:		
Beginning of year	596,185	**90,313**
Purchase from the market by the trustee at weighted average market price of HK$10.85 (2020: HK$11.53) per Share Stapled Unit	83,265	**86,311**
Share Stapled Units vested	(587,425)	**(90,313)**
Transfer of Share Stapled Units to group companies	(1,712)	**-**
End of year	90,313	**86,311**
HKT Share Stapled Units Subscription Scheme:		
Beginning of year	-	**1,228,906**
Share Stapled Units vested	(403,150)	**(783,827)**
Transfer of Share Stapled Units from group companies	1,632,056	**628,380**
End of year	1,228,906	**1,073,459**

24 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

			2020					
			Number of PCCW Shares/Share Stapled Units					
Date of award	Vesting period	Fair value on the date of award HK$	As at January 1, 2020	Awarded	Forfeited	Vested	Transfer to group companies	As at December 31, 2020
PCCW Purchase Scheme (PCCW Shares)								
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	127,825	-	-	(127,825)	-	-
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	126,424	-	-	(126,424)	-	-
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	126,423	-	-	-	-	126,423
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	-	108,361	-	-	-	108,361
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	-	108,359	-	-	-	108,359
Total			380,672	216,720	-	(254,249)	-	343,143
Weighted average fair value on the date of award (HK$)			4.71	4.64	-	4.70	-	4.68
PCCW Subscription Scheme (PCCW Shares)								
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	1,042,531	-	(5,109)	(1,035,611)	(1,811)	-
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	1,058,820	-	(11,487)	(1,045,820)	(1,513)	-
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	1,057,971	-	(39,885)	-	(2,780)	1,015,306
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	-	1,125,095	(34,936)	-	-	1,090,159
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	-	1,124,231	(34,888)	-	-	1,089,343
Total			3,159,322	2,249,326	(126,305)	(2,081,431)	(6,104)	3,194,808
Weighted average fair value on the date of award (HK$)			4.71	4.64	4.68	4.70	4.72	4.67
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)								
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	541,956	-	(2,365)	(538,752)	(839)	-
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	48,673	-	-	(48,673)	-	-
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	48,671	-	-	-	-	48,671
April 16, 2020	April 16, 2020 to April 16, 2021	11.86	-	41,642	-	-	-	41,642
April 16, 2020	April 16, 2020 to April 16, 2022	11.86	-	41,641	-	-	-	41,641
Total			639,300	83,283	(2,365)	(587,425)	(839)	131,954
Weighted average fair value on the date of award (HK$)			10.31	11.86	9.94	10.14	9.94	12.05
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)								
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	408,161	-	(4,428)	(403,150)	(583)	-
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	407,299	-	(15,356)	-	(1,070)	390,873
April 16, 2020	April 16, 2020 to April 16, 2021	11.86	-	432,873	(13,449)	-	-	419,424
April 16, 2020	April 16, 2020 to April 16, 2022	11.86	-	432,018	(13,409)	-	-	418,609
Total			815,460	864,891	(46,642)	(403,150)	(1,653)	1,228,906
Weighted average fair value on the date of award (HK$)			12.38	11.86	12.08	12.38	12.38	12.03

24 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

			2021 Number of PCCW Shares/Share Stapled Units					
Date of award	Vesting period	Fair value on the date of award HK$	As at January 1, 2021	Awarded	Forfeited	Vested	Transfer to group companies	As at December 31, 2021
PCCW Purchase Scheme (PCCW Shares)								
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	126,423	-	-	(126,423)	-	-
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	108,361	-	-	(108,361)	-	-
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	108,359	-	-	-	-	108,359
April 16, 2021	April 16, 2021 to April 16, 2022	4.53	-	111,025	-	-	-	111,025
April 16, 2021	April 16, 2021 to April 16, 2023	4.53	-	111,022	-	-	-	111,022
Total			343,143	222,047	-	(234,784)	-	330,406
Weighted average fair value on the date of award (HK$)			4.68	4.53	-	4.69	-	4.57
PCCW Subscription Scheme (PCCW Shares)								
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	1,015,306	-	(11,965)	(978,922)	(24,419)	-
April 16, 2020	April 16, 2020 to April 16, 2021	4.64	1,090,159	-	(17,630)	(1,057,758)	(14,771)	-
April 16, 2020	April 16, 2020 to April 16, 2022	4.64	1,089,343	-	(79,427)	-	(14,602)	995,314
April 16, 2021	April 16, 2021 to April 16, 2022	4.53	-	888,545	(60,603)	-	(713)	827,229
April 16, 2021	April 16, 2021 to April 16, 2023	4.53	-	887,875	(60,539)	-	(713)	826,623
July 2, 2021	July 2, 2021 to April 16, 2022	4.09	-	31,320	-	-	-	31,320
July 2, 2021	July 2, 2021 to April 16, 2023	4.09	-	31,320	-	-	-	31,320
Total			3,194,808	1,839,060	(230,164)	(2,036,680)	(55,218)	2,711,806
Weighted average fair value on the date of award (HK$)			4.67	4.52	4.59	4.69	4.68	4.56
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)								
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	48,671	-	-	(48,671)	-	-
April 16, 2020	April 16, 2020 to April 16, 2021	11.86	41,642	-	-	(41,642)	-	-
April 16, 2020	April 16, 2020 to April 16, 2022	11.86	41,641	-	-	-	-	41,641
April 16, 2021	April 16, 2021 to April 16, 2022	11.06	-	44,670	-	-	-	44,670
April 16, 2021	April 16, 2021 to April 16, 2023	11.06	-	44,669	-	-	-	44,669
Total			131,954	89,339	-	(90,313)	-	130,980
Weighted average fair value on the date of award (HK$)			12.05	11.06	-	12.14	-	11.31

24 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

			2021					
			Number of Share Stapled Units					
Date of award	Vesting period	Fair value on the date of award HK$	As at January 1, 2021	Awarded	Forfeited	Vested	Transfer to group companies	As at December 31, 2021
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)								
April 17, 2019	April 17, 2019 to April 17, 2021	**12.38**	**390,873**	**-**	**(4,985)**	**(376,864)**	**(9,024)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2021	**11.86**	**419,424**	**-**	**(6,950)**	**(406,963)**	**(5,511)**	**-**
April 16, 2020	April 16, 2020 to April 16, 2022	**11.86**	**418,609**	**-**	**(30,818)**	**-**	**(5,316)**	**382,475**
April 16, 2021	April 16, 2021 to April 16, 2022	**11.06**	**-**	**357,907**	**(24,625)**	**-**	**(83)**	**333,199**
April 16, 2021	April 16, 2021 to April 16, 2023	**11.06**	**-**	**357,225**	**(24,558)**	**-**	**(85)**	**332,582**
July 2, 2021	July 2, 2021 to April 16, 2022	**10.56**	**-**	**12,602**	**-**	**-**	**-**	**12,602**
July 2, 2021	July 2, 2021 to April 16, 2023	**10.56**	**-**	**12,601**	**-**	**-**	**-**	**12,601**
Total			**1,228,906**	**740,335**	**(91,936)**	**(783,827)**	**(20,019)**	**1,073,459**
Weighted average fair value on the date of award (HK$)			**12.03**	**11.04**	**11.46**	**12.11**	**12.09**	**11.33**

The fair values of the PCCW Shares and the Share Stapled Units awarded during the year on the dates of award are measured by the respective quoted market prices of the PCCW Shares and the Share Stapled Units at the respective award dates.

The PCCW Shares and the Share Stapled Units unvested had a weighted average remaining vesting period at the end of the reporting period as follows:

	2020	**2021**
PCCW Purchase Scheme (PCCW Shares)	0.61 year	**0.63 year**
PCCW Subscription Scheme (PCCW Shares)	0.63 year	**0.61 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.61 year	**0.63 year**
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)	0.63 year	**0.61 year**

25 SHARE CAPITAL

	2020		**2021**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Issued and fully paid:				
Ordinary shares of no par value				
Beginning and end of year	2,488,200,001	9,945	**2,488,200,001**	**9,945**

26 RESERVES

	2020						
In HK$ million	Capital contribution reserve	Merger reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Retained profits	Total
As at January 1, 2020	28	(695)	-	438	(158)	2,265	1,878
Total comprehensive income/(loss) for the year							
Profit for the year	-	-	-	-	-	2,852	2,852
Other comprehensive income/(loss)							
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:							
Exchange differences on translating foreign operations	-	-	4	-	-	-	4
Cash flow hedges:							
- effective portion of changes in fair value	-	-	-	(268)	-	-	(268)
- transfer from equity to consolidated income statement	-	-	-	(89)	7	-	(82)
Costs of hedging	-	-	-	-	181	-	181
Total comprehensive income/(loss) for the year	-	-	4	(357)	188	2,852	2,687
Transactions with equity holder							
Final dividend paid in respect of the previous year	-	-	-	-	-	(2,100)	(2,100)
Interim dividend declared and paid in respect of the current year	-	-	-	-	-	(1,350)	(1,350)
Total transactions with equity holder	-	-	-	-	-	(3,450)	(3,450)
As at December 31, 2020	28	(695)	4	81	30	1,667	1,115

26 RESERVES *(CONTINUED)*

	2021						
In HK$ million	Capital contribution reserve	Merger reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Retained profits	Total
As at January 1, 2021	**28**	**(695)**	**4**	**81**	**30**	**1,667**	**1,115**
Total comprehensive income/(loss) for the year							
Profit for the year	-	-	-	-	-	**3,440**	**3,440**
Other comprehensive income/(loss)							
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:							
Cash flow hedges:							
- effective portion of changes in fair value	-	-	-	**(2)**	-	-	**(2)**
- transfer from equity to consolidated income statement	-	-	-	**(4)**	**12**	-	**8**
Costs of hedging	-	-	-	-	**(55)**	-	**(55)**
Total comprehensive income/(loss) for the year	-	-	-	**(6)**	**(43)**	**3,440**	**3,391**
Transactions with equity holder							
Final dividend paid in respect of the previous year	-	-	-	-	-	**(1,465)**	**(1,465)**
Interim dividend declared and paid in respect of the current year	-	-	-	-	-	**(1,373)**	**(1,373)**
Total transactions with equity holder	-	-	-	-	-	**(2,838)**	**(2,838)**
As at December 31, 2021	**28**	**(695)**	**4**	**75**	**(13)**	**2,269**	**1,668**

27 DEFERRED INCOME TAX

a. Movements in deferred income tax liabilities/(assets) were as follows:

	2020		
In HK$ million	Accelerated tax depreciation and amortization	Others	Total
Beginning of year	3,536	(3)	3,533
Charged to the consolidated income statement *(note 10(a))*	410	-	410
End of year	3,946	(3)	3,943

	2021		
In HK$ million	**Accelerated tax depreciation and amortization**	**Others**	**Total**
Beginning of year	**3,946**	**(3)**	**3,943**
Charged to the consolidated income statement *(note 10(a))*	**443**	**-**	**443**
End of year	**4,389**	**(3)**	**4,386**

b. No deferred income tax assets were recognized for tax losses carry-forward as at December 31, 2020 and 2021. As at December 31, 2021, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$146 million (2020: HK$129 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$9 million (2020: nil) will expire within 1 to 5 years from December 31, 2021. The remaining portion of the tax losses, relating to Hong Kong companies, can be carried-forward indefinitely.

28 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2021, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	2020 Present value of the minimum annual fees	2020 Interest expense relating to future periods	2020 Total minimum annual fees	**2021 Present value of the minimum annual fees**	**2021 Interest expense relating to future periods**	**2021 Total minimum annual fees**
Payable within a period						
- not exceeding one year	215	7	222	**315**	**5**	**320**
- over one year, but not exceeding two years	88	6	94	**311**	**14**	**325**
- over two years, but not exceeding five years	210	25	235	**837**	**78**	**915**
- over five years	329	86	415	**2,301**	**609**	**2,910**
	842	124	966	**3,764**	**706**	**4,470**
Less: amounts payable within one year included under current liabilities	(215)	(7)	(222)	**(315)**	**(5)**	**(320)**
Non-current portion	627	117	744	**3,449**	**701**	**4,150**

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2020	**2021**
Profit before income tax	3,336	**4,005**
Adjustments for:		
Other losses, net	301	**6**
Finance costs, net	1,344	**1,130**
Gain on disposal of property, plant and equipment, net	(3)	**(23)**
(Write-back of provision for)/Provision for inventory obsolescence, net	(10)	**1**
Impairment loss for trade receivables	89	**63**
Depreciation of property, plant and equipment	710	**757**
Depreciation of right-of-use assets	841	**799**
Amortization of land lease premium – interests in leasehold land	13	**13**
Amortization of intangible assets	1,022	**1,249**
Amortization of fulfillment costs	479	**385**
Amortization of customer acquisition costs	389	**384**
Share of results of a joint venture	5	**5**
Share-based compensation expenses	24	**19**
Increase in PCCW Shares and Share Stapled Units under share award schemes	(40)	**(16)**
(Increase)/Decrease in operating assets		
- inventories	(17)	**(209)**
- trade receivables, prepayments, deposits and other current assets	184	**(795)**
- contract assets	(38)	**(87)**
- amount due from a related company	(15)	**(9)**
- restricted cash	-	**(7)**
- fulfillment costs	(516)	**(479)**
- customer acquisition costs	(395)	**(378)**
- other non-current assets	56	**(17)**
(Decrease)/Increase in operating liabilities		
- trade payables, accruals and other payables, amounts due to fellow subsidiaries and intermediate holding companies	(2)	**(630)**
- advances from customers	(29)	**9**
- contract liabilities	17	**67**
- other long-term liabilities	(16)	**4**
CASH GENERATED FROM OPERATIONS	7,729	**6,246**
Interest received	10	**3**
Income tax paid, net of tax refund		
- Hong Kong profits tax refund*	-	**314**
- overseas profits tax paid	-	**(2)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	7,739	**6,561**

* As at December 31, 2020 and 2021, the Company had not yet received the Hong Kong profits tax assessments for the tax assessment year 2019/20 and/or 2020/21, such that any corresponding tax charge settlement would be deferred to upcoming financial years.

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities

Movements of financial (assets)/liabilities arising from financing activities are as follows:

	2020						
In HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Borrowings	Derivative financial instruments, net	Balances with fellow subsidiaries and intermediate holding companies, net	Lease liabilities	Total
As at January 1, 2020	(20)	251	40,358	(252)	7,120	1,259	48,716
Cash flows in financing activities							
New borrowings raised	-	10	19,450	-	-	-	19,460
Finance costs (paid)/received	-	(1,011)	-	239	-	-	(772)
Repayments of borrowings	-	-	(17,637)	-	-	-	(17,637)
Payment for lease liabilities (including interest)	-	-	-	-	-	(870)	(870)
Movement in balances with fellow subsidiaries and an intermediate holding company	-	-	-	-	(474)	-	(474)
Cash flows in investing activities							
Loan repayment in relation to licence fee *(note 31(b)(i))*	-	-	(130)	-	-	-	(130)
Repayment of loan from a fellow subsidiary	-	-	-	-	82	-	82
Cash flows in operating activities	-	-	-	-	(1,486)	-	(1,486)
Non-cash movements	(5)	956	177	(49)	85	837	2,001
As at December 31, 2020	(25)	206	42,218	(62)	5,327	1,226	48,890

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities *(continued)*

Movements of financial (assets)/liabilities arising from financing activities are as follows: *(continued)*

	2021						
In HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Borrowings	Derivative financial instruments, net	Balances with fellow subsidiaries, the immediate holding company, the ultimate holding company and intermediate holding companies, net	Lease liabilities	Total
As at January 1, 2021	(25)	206	42,218	(62)	5,327	1,226	48,890
Cash flows in financing activities							
New borrowings raised	-	(25)	15,815	-	-	-	15,790
Finance costs (paid)/received	-	(822)	-	206	-	-	(616)
Repayments of borrowings	-	-	(14,352)	-	-	-	(14,352)
Payment for lease liabilities (including interest)	-	-	-	-	-	(846)	(846)
Movement in balances with fellow subsidiaries and an intermediate holding company	-	-	-	-	798	-	798
Cash flows in investing activities							
Loan repayment in relation to licence fee *(note 31(b)(i))*	-	-	(130)	-	-	-	(130)
Repayment of loan from a fellow subsidiary	-	-	-	-	236	-	236
Addition upon business combination	-	-	-	-	2	-	2
Cash flows in operating activities	-	-	-	-	(2,027)	-	(2,027)
Non-cash movements	16	852	77	(147)	2	669	1,469
As at December 31, 2021	(9)	211	43,628	(3)	4,338	1,049	49,214

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

c. Analysis of cash and cash equivalents

In HK$ million	2020	**2021**
Total cash and bank balances	1,375	**1,524**
Less: restricted cash	-	**(7)**
Less: short-term deposits	(538)	**(472)**
Cash and cash equivalents as at December 31,	837	**1,045**

30 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holder of the Group and benefits for other stakeholders to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

The Group is not subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties.

31 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

	2020			
In HK$ million	Financial assets at amortized cost	Financial assets at FVPL	Derivatives used for hedging	Total
Non-current assets				
Amount due from a fellow subsidiary	206	-	-	206
Financial assets at FVPL	-	17	-	17
Derivative financial instruments	-	-	214	214
Other non-current assets (excluding prepayments)	132	-	-	132
	338	17	214	569
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	818	-	-	818
Trade receivables, net	1,165	-	-	1,165
Amount due from a related company	38	-	-	38
Amounts due from fellow subsidiaries	8,509	-	-	8,509
Financial assets at FVPL	-	19	-	19
Short-term deposits	538	-	-	538
Cash and cash equivalents	837	-	-	837
	11,905	19	-	11,924
Total	12,243	36	214	12,493

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

			2020	
In HK$ million	Derivatives used for hedging	Derivatives at FVPL	Other financial liabilities at amortized cost	Total
Current liabilities				
Short-term borrowings	-	-	(1,499)	(1,499)
Trade payables	-	-	(2,601)	(2,601)
Accruals and other payables	-	-	(2,164)	(2,164)
Derivative financial instruments	(21)	(3)	-	(24)
Carrier licence fee liabilities	-	-	(215)	(215)
Amounts due to fellow subsidiaries and intermediate holding companies	-	-	(14,041)	(14,041)
Advances from customers	-	-	(84)	(84)
Lease liabilities	-	-	(634)	(634)
	(21)	(3)	(21,238)	(21,262)
Non-current liabilities				
Long-term borrowings	-	-	(40,719)	(40,719)
Amount due to a fellow subsidiary	-	-	(1)	(1)
Derivative financial instruments*	(128)	-	-	(128)
Carrier licence fee liabilities	-	-	(627)	(627)
Lease liabilities	-	-	(592)	(592)
Other long-term liabilities	-	-	(1,536)	(1,536)
	(128)	-	(43,475)	(43,603)
Total	(149)	(3)	(64,713)	(64,865)

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

	2021			
In HK$ million	**Financial assets at amortized cost**	**Financial assets at FVPL**	**Derivatives used for hedging**	**Total**
Non-current assets				
Financial assets at FVPL	-	16	-	16
Derivative financial instruments	-	-	131	131
Other non-current assets (excluding prepayments)	11	-	-	11
	11	16	131	158
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	876	-	-	876
Trade receivables, net	1,726	-	-	1,726
Amount due from a related company	28	-	-	28
Amounts due from fellow subsidiaries, the immediate holding company and the ultimate holding company	12,856	-	-	12,856
Financial assets at FVPL	-	17	-	17
Restricted cash	7	-	-	7
Short-term deposits	472	-	-	472
Cash and cash equivalents	1,045	-	-	1,045
	17,010	17	-	17,027
Total	17,021	33	131	17,185

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	**Derivatives used for hedging**	**2021** **Other financial liabilities at amortized cost**	**Total**
Current liabilities			
Trade payables	-	**(3,841)**	**(3,841)**
Accruals and other payables	-	**(2,207)**	**(2,207)**
Carrier licence fee liabilities	-	**(315)**	**(315)**
Amounts due to fellow subsidiaries and intermediate holding companies	-	**(17,169)**	**(17,169)**
Advances from customers	-	**(93)**	**(93)**
Lease liabilities	-	**(576)**	**(576)**
	-	**(24,201)**	**(24,201)**
Non-current liabilities			
Long-term borrowings	-	**(43,628)**	**(43,628)**
Amount due to a fellow subsidiary	-	**(25)**	**(25)**
Derivative financial instruments*	**(128)**	-	**(128)**
Carrier licence fee liabilities	-	**(3,449)**	**(3,449)**
Lease liabilities	-	**(473)**	**(473)**
Other long-term liabilities	-	**(1,927)**	**(1,927)**
	(128)	**(49,502)**	**(49,630)**
Total	**(128)**	**(73,703)**	**(73,831)**

* As at December 31, 2021, derivative financial instruments classified as non-current liabilities of HK$22 million (2020: HK$36 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$470 million (approximately HK$3,686 million) (2020: US$470 million (approximately HK$3,686 million)) were designated as cash flow hedges of US$300 million zero coupon guaranteed notes due 2030. The US$300 million guaranteed notes may be redeemed at the option of the Group on January 15, 2025 at an early redemption amount of US$470 million (2020: US$470 million). Refer to notes 22(b) and 23(a) for details of the guaranteed notes and the foreign exchange forward contracts respectively.

Exposure to credit, liquidity and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, short-term deposits, restricted cash, trade receivables, contract assets, amount due from a related company, amounts due from fellow subsidiaries, the immediate holding company and the ultimate holding company, interest receivable, lease receivables, derivative financial instruments, deposits and other receivables. Management has policies in place and exposure to these credit risks is monitored on an ongoing basis.

The Group's 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 Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2020 and 2021, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 21(c).

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at December 31, 2020 and 2021 and the Group made no write-off or provision for these contract assets during the years ended December 31, 2020 and 2021.

Amount due from a related company, amounts due from fellow subsidiaries, the immediate holding company and the ultimate holding company, lease receivables, deposits and other receivables are considered to have low credit risk. These assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2020 and 2021, amount due from a related company, amounts due from fellow subsidiaries, the immediate holding company and the ultimate holding company, lease receivables, deposits and other receivables were fully performing.

Derivative financial instruments, interest receivable, restricted cash, short-term deposits and cash and cash equivalents are considered to have low credit risk. These assets are executed with creditworthy financial institutions or investment counterparties and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 33, the Group does not provide any other guarantees which would expose the Group to credit risk.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and banking facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of the Company in the normal course of its businesses. Refer to note 33 for details.

The following tables detail the remaining contractual maturities at the end of the reporting periods of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2020					
In HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(1,507)	-	-	-	(1,507)	(1,499)
Trade payables	(2,601)	-	-	-	(2,601)	(2,601)
Accruals and other payables	(2,164)	-	-	-	(2,164)	(2,164)
Derivative financial instruments	(24)	-	-	-	(24)	(24)
Carrier licence fee liabilities	(222)	-	-	-	(222)	(215)
Amounts due to fellow subsidiaries and intermediate holding companies	(14,062)	-	-	-	(14,062)	(14,041)
Advances from customers	(84)	-	-	-	(84)	(84)
Lease liabilities	(660)	-	-	-	(660)	(634)
	(21,324)	-	-	-	(21,324)	(21,262)
Non-current liabilities						
Long-term borrowings *(note (i))*	(629)	(3,246)	(26,014)	(14,478)	(44,367)	(40,719)
Amount due to a fellow subsidiary	-	-	(1)	-	(1)	(1)
Derivative financial instruments *(note (ii))*	11	11	(104)	(12)	(94)	(128)
Carrier licence fee liabilities	-	(94)	(235)	(415)	(744)	(627)
Lease liabilities	-	(334)	(219)	(71)	(624)	(592)
Other long-term liabilities *(note (iii))*	-	(12)	(768)	(3,203)	(3,983)	(1,536)
	(618)	(3,675)	(27,341)	(18,179)	(49,813)	(43,603)
Total	(21,942)	(3,675)	(27,341)	(18,179)	(71,137)	(64,865)

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	2021 Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Trade payables	**(3,841)**	-	-	-	**(3,841)**	**(3,841)**
Accruals and other payables	**(2,207)**	-	-	-	**(2,207)**	**(2,207)**
Carrier licence fee liabilities	**(320)**	-	-	-	**(320)**	**(315)**
Amounts due to fellow subsidiaries and intermediate holding companies	**(17,188)**	-	-	-	**(17,188)**	**(17,169)**
Advances from customers	**(93)**	-	-	-	**(93)**	**(93)**
Lease liabilities	**(595)**	-	-	-	**(595)**	**(576)**
	(24,244)	-	-	-	**(24,244)**	**(24,201)**
Non-current liabilities						
Long-term borrowings *(note (i))*	**(643)**	**(10,390)**	**(27,515)**	**(8,346)**	**(46,894)**	**(43,628)**
Amount due to a fellow subsidiary	**(1)**	**(2)**	**(24)**	-	**(27)**	**(25)**
Derivative financial instruments *(note (ii))*	**12**	**(107)**	**1**	**(14)**	**(108)**	**(128)**
Carrier licence fee liabilities	-	**(325)**	**(915)**	**(2,910)**	**(4,150)**	**(3,449)**
Lease liabilities	-	**(300)**	**(185)**	**(11)**	**(496)**	**(473)**
Other long-term liabilities *(note (iii))*	-	**(755)**	-	**(3,253)**	**(4,008)**	**(1,927)**
	(632)	**(11,879)**	**(28,638)**	**(14,534)**	**(55,683)**	**(49,630)**
Total	**(24,876)**	**(11,879)**	**(28,638)**	**(14,534)**	**(79,927)**	**(73,831)**

Notes:

(i) As at December 31, 2021, bank borrowings of HK$1,300 million (2020: HK$1,430 million) included in long-term borrowings were outstanding for financing a 15-year 3G spectrum utilization fee paid upfront by the Group.

(ii) As at December 31, 2021, derivative financial instruments included HK$78 million (2020: HK$49 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a floating-to-fixed interest rate swap contract with a notional contract amount of HK$1,000 million (2020: HK$1,000 million).

(iii) As at December 31, 2021, other long-term liabilities included HK$455 million (2020: HK$378 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK$1,665 million) (2020: EUR200 million (approximately HK$1,665 million)) and included HK$547 million (2020: HK$379 million) of long-term interest payable, which related to interest drawn under the arrangements with banks to receive agreed amounts by installments to settle interest payments of fixed-to-fixed cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2020: US$500 million (approximately HK$3,879 million)). Refer to notes 22(d), 22(a) and 23(a) for details of the guaranteed notes and the derivative financial instruments respectively.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of HKT, 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. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

The Group's borrowings are substantially denominated in Hong Kong dollars, United States dollars and Euro. As at December 31, 2020 and 2021, all of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. The cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2021 with an aggregate notional contract amount of US$2,720 million (approximately HK$21,189 million) (2020: US$2,220 million (approximately HK$17,301 million)) and EUR200 million (approximately HK$1,665 million) (2020: EUR200 million (approximately HK$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies:

	2020			**2021**		
In HK$ million	United States Dollars	Pound Sterling	Euro	**United States Dollars**	**Pound Sterling**	**Euro**
Trade receivables	284	-	5	**104**	**-**	**9**
Short-term deposits	-	-	-	**472**	**-**	**-**
Cash and cash equivalents	328	11	1	**479**	**1**	**2**
Amount due from a fellow subsidiary	-	206	-	**-**	**-**	**-**
Trade payables	(1,931)	-	-	**(2,549)**	**-**	**-**
Amount due to a fellow subsidiary	(155)	-	-	**(203)**	**-**	**-**
Long-term borrowings	(19,592)	-	(1,878)	**(19,745)**	**-**	**(1,752)**
Gross exposure arising from net monetary (liabilities)/assets	(21,066)	217	(1,872)	**(21,442)**	**1**	**(1,741)**
Borrowings with hedging instruments	19,592	-	1,878	**19,745**	**-**	**1,752**
Overall net exposure	(1,474)	217	6	**(1,697)**	**1**	**11**

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 1% (2020: same) against the United States dollar, with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$14 million (2020: HK$12 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2021 would have collectively debited/credited by approximately HK$197 million (2020: HK$157 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 5% (2020: same) against Pound Sterling, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by an immaterial amount (2020: HK$9 million), mainly as a result of foreign exchange gains/losses on translation of Pound Sterling denominated monetary assets and liabilities.

As at December 31, 2021, if the Hong Kong dollar had weakened/strengthened by 5% (2020: same) against Euro, with all other variables held constant, the profit after tax of the Group for the year would have increased/decreased by an immaterial amount (2020: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2021 would have collectively debited/credited by approximately HK$88 million (2020: HK$94 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remained constant.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis was performed on the same methodology for the years ended December 31, 2020 and 2021.

ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings, amounts due to fellow subsidiaries and amount due to an intermediate holding company. Borrowings and balances with group companies at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under its revolving credit facilities which are substantially denominated in Hong Kong dollars with floating rate interest.

The Group has entered into floating-to-fixed interest rate swap contracts to hedge the cash flow interest rate risk arising from certain floating rate short-term and long-term borrowings.

The following table details the interest rate profile of the Group's borrowings and balances with group companies at the end of the reporting period, after taking into account the effect of the cash flow hedging instruments:

	2020		**2021**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate balances:				
Short-term bank borrowings with hedging instrument	1.84	1,499	**-**	**-**
Long-term borrowings	3.80	3,850	**-**	**-**
Long-term bank borrowings with hedging instruments	2.46	2,927	**2.71**	**993**
Long-term borrowings with hedging instruments	3.74	17,620	**3.76**	**21,497**
Balances due to fellow subsidiaries	2.95	39	**3.25**	**65**
Variable rate balances:				
Long-term bank borrowings	1.20	16,322	**0.90**	**21,138**
Balance due to a fellow subsidiary	0.61	155	**0.10**	**203**
Balance due to an intermediate holding company	1.77	4,994	**0.43**	**4,434**
Total		47,406		**48,330**

As at December 31, 2021, if the interest rate on variable rate borrowings and balances with group companies had increased/decreased by 50 basis points (2020: same), with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$108 million (2020: HK$90 million), mainly as a result of higher/lower interest expense on floating rate borrowings and balances with group companies in existence at the end of the reporting period.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The sensitivity analysis has been determined assuming that the change in interest rate occurred at the end of the reporting period and applied to the Group's exposure to interest rate risk for floating rate borrowings and balances with group companies in existence at those dates. The 50 basis points (2020: same) increase or decrease represents management's assessment of a reasonably possible change in interest rate over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for the years ended December 31, 2020 and 2021.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments. Other than unlisted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange market.

Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unlisted investments held for long-term strategic purposes is assessed at least semi-annually against the performance of the associated business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

d. Fair values of financial instruments measured at amortized cost

All financial instruments were carried at amounts not materially different from their fair values as at December 31, 2021 except as follows:

	2020		**2021**	
In HK$ million	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	40,719	42,155	**43,628**	**44,629**

The fair values of long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy (as defined in note 31(e)).

e. Estimation of fair values

Financial instruments carried at fair value are analyzed by valuation method and the different levels are defined as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted securities.

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the Group's financial assets and liabilities that were measured at fair value:

In HK$ million	Level 1	Level 2	Level 3	Total
		2020		
Assets				
Financial assets at FVPL				
- Unlisted securities (non-current)	-	-	8	8
- Listed securities (non-current)	9	-	-	9
- Listed securities (current)	19	-	-	19
Derivative financial instruments				
- Non-current	-	214	-	214
Total assets	28	214	8	250
Liabilities				
Derivative financial instruments				
- Current	-	(24)	-	(24)
- Non-current	-	(128)	-	(128)
Total liabilities	-	(152)	-	(152)

In HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
		2021		
Assets				
Financial assets at FVPL				
- Unlisted securities (non-current)	**-**	**-**	**10**	**10**
- Listed securities (non-current)	**6**	**-**	**-**	**6**
- Listed securities (current)	**17**	**-**	**-**	**17**
Derivative financial instruments				
- Non-current	**-**	**131**	**-**	**131**
Total assets	**23**	**131**	**10**	**164**
Liabilities				
Derivative financial instruments				
- Non-current	**-**	**(128)**	**-**	**(128)**

Instruments included in level 1 comprised PCCW Shares acquired or subscribed under PCCW Share Award Schemes and Share Stapled Units acquired or subscribed under Share Stapled Units Award Schemes and classified as financial assets at FVPL.

Instruments included in level 2 comprised cross currency swap contracts, interest rate swap contracts and foreign exchange forward contracts classified as derivative financial instruments. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap foreign exchange rates and interest rates. The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign exchange rates quoted for contracts with the same notional amounts adjusted for maturity differences.

Instruments included in level 3 comprised investments in unlisted instruments classified as financial assets at FVPL. During the year ended December 31, 2021, there was an addition of HK$2 million in the instruments included in level 3 (2020: nil).

31 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2020 and 2021.

There were no material changes in valuation techniques during the years ended December 31, 2020 and 2021.

f. Group's valuation process

The Group performs and monitors the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

32 COMMITMENTS

a. Capital

As at December 31, 2021, capital commitments authorized and contracted for by nature were as follows:

In HK$ million	2020	**2021**
Acquisition of property, plant and equipment	610	**558**

b. Committed leases not yet commenced

As at December 31, 2021, the total future lease payments for leases committed but not yet commenced were payable as follows:

Land and buildings

In HK$ million	2020	**2021**
Within 1 year	8	**25**
After 1 year but within 5 years	63	**45**
	71	**70**

c. Others

As at December 31, 2021, the Group had other outstanding commitments as follows:

In HK$ million	2020	**2021**
Operating expenditure commitments	3,227	**599**

32 COMMITMENTS *(CONTINUED)*

d. Lease receivables

i. As at December 31, 2021, the maturity analysis of the lease receivables under non-cancellable finance leases is as follows:

In HK$ million	2020	**2021**
Within 1 year	7	**-**
After 1 year but within 2 years	8	**-**
After 2 years but within 3 years	10	**-**
After 3 years but within 4 years	10	**-**
After 4 years but within 5 years	11	**-**
After 5 years	82	**-**
Total contractual undiscounted lease receivables*	128	**-**
Less: interest income relating to future periods	(22)	**-**
Carrying amount	106	**-**
Less: amounts receivable within one year included under current assets	(4)	**-**
Non-current portion	102	**-**

* As at December 31, 2020, the majority of the leases typically run for a period of 15 years.

ii. As at December 31, 2021, the maturity analysis of the total future minimum lease receipts under non-cancellable operating leases is as follows:

In HK$ million	2020	**2021**
Within 1 year	41	**30**
After 1 year but within 2 years	20	**14**
After 2 years but within 3 years	5	**8**
After 3 years but within 4 years	-	**1**
	66	**53**

The Group leases out properties under operating leases. The majority of the leases typically run for periods of 1 to 15 years (2020: 1 to 15 years). None of the leases include material contingent rentals.

33 CONTINGENT LIABILITIES

In HK$ million	2020	**2021**
Performance guarantees	125	**123**

The Group is subject to certain corporate guarantee obligations to guarantee the performance of the Company in the normal course of its 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.

34 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2021 was HK$32,148 million (2020: HK$29,948 million) of which the undrawn facilities amounted to HK$9,878 million (2020: HK$9,063 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of HKTGH's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group and HKTGH were to breach the covenants, the drawn down facilities would become payable on demand and the undrawn facilities would be cancelled. The Group and HKTGH regularly monitor their compliance with these covenants. As at December 31, 2021, the Group and HKTGH were in compliance with the covenants relating to the banking facilities. Further details of the Group's management of liquidity risk are set out in note 31(b).

Summaries of short-term and long-term borrowings are set out in notes 21(e) and 22 respectively.

35 SUBSEQUENT EVENT

On January 18, 2022, HKT Capital No. 6 Limited, a direct 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 HKTGH and the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and the Company.

36 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2021

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended Hong Kong Financial Reporting Standards which are not yet effective for the accounting period ended December 31, 2021 and which have not been early adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	January 1, 2023
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023
HKAS 12 (Amendments)	Income Taxes	January 1, 2023
HKAS 16 (Amendments)	Property, Plant and Equipment	January 1, 2022
HKAS 28 (2011) (Amendments)	Investments in Associates and Joint Ventures	To be announced
HKAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2022
HKFRS 3 (Revised) (Amendments)	Business Combinations	January 1, 2022
HKFRS 10 (Amendments)	Consolidated Financial Statements	To be announced
HKFRS 17	Insurance Contracts	January 1, 2023
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2023
Annual Improvements to HKFRSs 2018 – 2020		January 1, 2022

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2021 and have not been early adopted in these consolidated financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Group.