IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES AND THE GUARANTEE (THE "**SECURITIES**") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the Securities, investors must not be a U.S. person. This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that you are not a U.S. person, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley & Co. International plc (together, the "**Joint Global Coordinators and Joint Bookrunners**") and DBS Bank Ltd., Mizuho Securities Asia Limited, SMBC Nikko Securities (Hong Kong) Limited and Standard Chartered Bank (together, the "**Joint Coordinating Arrangers and Joint Bookrunners**" and together with the Joint Global Coordinators and Joint Bookrunners, the "**Joint Lead Managers**" and each a "**Joint Lead Manager**") or any person who controls any of the Joint Lead Managers, or any director, officer, employee or agent of any of the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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HKT CAPITAL NO. 6 LIMITED

(incorporated in the British Virgin Islands with limited liability)

U.S.$650,000,000 3.00%

GUARANTEED NOTES DUE 2032
irrevocably and unconditionally jointly and severally guaranteed by

HKT GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

and

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

(incorporated in Hong Kong with limited liability)

ISSUE PRICE: 99.923%

The 3.00% Guaranteed Notes due 2032 (the "**Notes**") in the aggregate principal amount of U.S.$650,000,000 to be issued by HKT Capital No. 6 Limited (the "**Issuer**") will be irrevocably and unconditionally jointly and severally guaranteed (the "**Guarantee**") by HKT Group Holdings Limited ("**HKTGH**") and Hong Kong Telecommunications (HKT) Limited (each of HKTGH and Hong Kong Telecommunications (HKT) Limited, a "**Guarantor**" and together, the "**Guarantors**").

The Notes will bear interest from 18 January 2022 at the rate set forth above, payable semi-annually in arrear on 18 January and 18 July of each year (commencing on 18 July 2022). The Notes mature on 18 January 2032. The Notes are not redeemable prior to maturity, except that the Notes may be redeemed, (i) in whole but not in part, in the event of certain developments affecting taxation at 100% of their principal amount plus accrued interest and (ii) in whole but not in part at 100% of their principal amount plus accrued and unpaid interest at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, as described in this Offering Circular.

The Notes will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of such Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Notes are expected to be rated "**Baa2**" by Moody's Investors Service Limited ("**Moody's**") and "**BBB**" by Standard & Poor's Ratings Services ("**S&P**"). A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing of and quotation for the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantors, its subsidiaries, its associated companies, if any, or the Notes.

Investing in the Notes involves risks. Please see "*Risk Factors*" beginning on page 12.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 18 January 2022 (the "**Issue Date**") with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Global Coordinators and Joint Bookrunners

HSBC **Morgan Stanley**

Joint Coordinating Arrangers and Joint Bookrunners

DBS Bank Ltd. **Mizuho Securities** **SMBC Nikko** **Standard Chartered Bank**

Offering Circular dated 11 January 2022

The Issuer and each Guarantor are responsible for the accuracy and completeness of the information in this Offering Circular and the Issuer and each Guarantor represent and warrant that the information in this Offering Circular is accurate and complete in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any material respect, provided that for the information provided by third-party sources contained herein, the Issuer and each Guarantor accept responsibility for accurately reproducing such information but accept no further or other responsibility in respect of such information.

Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as at the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuer and the Guarantors may have changed since that date.

This Offering Circular is based on information provided by the Issuer and each Guarantor and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY NOTE OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTORS OR THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, each Guarantor, The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley & Co. International plc (together, the "**Joint Global Coordinators and Joint Bookrunners**") and DBS Bank Ltd., Mizuho Securities Asia Limited, SMBC Nikko Securities (Hong Kong) Limited and Standard Chartered Bank (together, the "**Joint Coordinating Arrangers and Joint Bookrunners**" and together with the Joint Global Coordinators and Joint Bookrunners, the "**Joint Lead Managers**" and each a "**Joint Lead Manager**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Singapore, Japan, Hong Kong, the Cayman Islands and the British Virgin Islands and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular has been prepared by the Issuer and each Guarantor solely for use in connection with the offering of the Notes related thereto and described herein. The Issuer, each Guarantor and each of the Joint Lead Managers reserve the right to reject any offer to purchase the Notes offered hereby in the primary market, in whole or in part, for any reason.

Each person receiving this Offering Circular acknowledges that (i) such person has been afforded an opportunity to request from the Issuer and each Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Joint Lead Managers or any person affiliated with them in connection with any investigation of the accuracy of such information or its investment decision, and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantors or the Notes (other than as contained herein and information given by duly authorised officers and employees of the Issuer and each Guarantor in connection with investors' examination of the Issuer and each Guarantor and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, each Guarantor, the Joint Lead Managers, The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**") or the Agents (as defined in the Terms and Conditions of the Notes).

None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantors or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents.

In making an investment decision, investors must rely on their own examination of the Issuer and each Guarantor and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. The Notes have not been recommended by the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or the Agents.

No representation or warranty, expressed or implied, is made by the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates or agents as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates and agents have not independently verified any of such information and assumes no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or any Agent or any of their respective affiliates or agents accepts any responsibility for the contents of this Offering Circular or for any statements made or purported to be made by any such person or on its behalf in connection with the Issuer, the Group, the Guarantors, the issue and offering of the Notes or the Guarantee. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates or agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statements.

IN CONNECTION WITH THIS OFFERING, THE JOINT LEAD MANAGERS (THE "STABILISATION MANAGERS" AND EACH A "STABILISATION MANAGER") OR ANY PERSON ACTING FOR ANY STABILISATION MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGERS (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGERS (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

UK MiFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

SINGAPORE SFA PRODUCT CLASSIFICATION – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Business of the Group*" and elsewhere in this Offering Circular constitute "*forward-looking statements*". The words including "**believe**", "**expect**", "**plan**", "**anticipate**", "**schedule**", "**estimate**" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Each of the Issuer and Guarantors expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the expectations of the Issuer or the Guarantors. All subsequent written and forward-looking statements attributable to the Issuer or a Guarantor or persons acting on behalf of the Issuer or a Guarantor are expressly qualified in their entirety by such cautionary statements.

INCORPORATION BY REFERENCE

The unaudited condensed consolidated interim financial information of the HKT Trust and HKT for the six months ended 30 June 2021, which has been reviewed by the independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), as disclosed on pages 23 to 44 of the Interim Report 2021 of the HKT Trust and HKT is incorporated by reference in this Offering Circular. Copies of such interim financial information are available and may be obtained free of charge on https://www.hkexnews.hk, so long as any of the Notes is outstanding. Neither the HKT Trust nor HKT is the issuer or the guarantor in respect of the Notes. HKT directly holds 100% of the issued share capital of HKTGH and indirectly holds 100% of the issued share capital of Hong Kong Telecommunications (HKT) Limited. Please refer to the corporate structure on page 47 of this Offering Circular for further information. The interim financial information for the six months ended 30 June 2021 should not be taken as an indication of the expected financial position and financial performance of the HKT Trust and HKT, HKTGH or Hong Kong Telecommunications (HKT) Limited as at and for the year ended 31 December 2021.

CERTAIN DEFINED TERMS AND CONVENTIONS

For the purpose of this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to "**U.S.**" are to the United States of America, all references to "**H.K. dollars**", "**HK$**" or "**cents**" are to Hong Kong dollars and cents, all references to "**SG dollars**" or "**S$**" are to the lawful currency of Singapore, all references to "**€**" or "**Euros**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended, and all references to "**U.S. dollars**" or "**U.S.$**" are to the lawful currency of the U.S.. Such translations should not be construed as representations that the Hong Kong dollar or U.S. dollar amounts referred to herein could have been, or could be, converted into any other currency at that or any other rate or at all. See "*Exchange Rates*".

As used in this Offering Circular:

"**2G**", "**3G**", "**4G**" and "**5G**" refers to second, third, fourth and fifth generation mobile wireless telecommunications technology;

"**AI**" refers to artificial intelligence, which is a discipline of computer science that is aimed at developing machines and systems that can carry out tasks considered to require human intelligence, with limited or no human intervention;

"**AR**" refers to augmented reality, which is an interactive experience of a real-world environment where the objects that reside in the real world are enhanced by computer-generated perceptual information, sometimes across multiple sensory modalities, including visual, auditory, haptic, somatosensory and olfactory;

"**ARPU**" refers to average revenue per user;

"**CA**" refers to the Communications Authority, which merges the offices of the former Broadcasting Authority and Telecommunications Authority;

"**CDN**" refers to content delivery network or content distribution network, which is a system of computers containing copies of data placed at various nodes of a network;

"**CSL Group**" refers to CSL Holdings and its subsidiaries (collectively);

"**CSL Holdings**" refers to CSL Holdings Limited, a company incorporated in Bermuda with limited liability, which was engaged, through its then subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products to customers in Hong Kong;

"**data-switching**" refers to the digital networking communication method that groups transmitted data into blocks for transmission over a network;

"**EBITDA**" represents earnings before interest income, finance costs, income tax, depreciation and amortisation, gain/loss on disposal of property, plant and equipment, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the HKFRS and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies;

"**Ethernet**" refers to a family of wired computer networking technologies commonly used in local area networks, metropolitan area networks and wide area networks, which is defined by the Institute of Electrical and Electronics Engineers as 802.3 standard;

"**FTTH**" means fibre-to-the-home;

"**Group**" refers to HKTGH and its subsidiaries (collectively);

"**HKFRS**" refers to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

"**HKT**" refers to HKT Limited, a company incorporated in the Cayman Islands with limited liability; the share stapled units of HKT and the HKT Trust are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823);

"**HKT Trust**" refers to the trust established under the laws of Hong Kong as a fixed single investment trust and known as the "**HKT Trust**" currently indirectly owned as to approximately 51.94% by PCCW;

"**ICT**" refers to information and communications technology;

"**Internet**" refers to the global system of interconnected computer networks;

"**IoT**" refers to the Internet of Things, which is a distributed network connecting physical objects that are capable of sensing or acting on their environment and able to communicate with each other, other machines or computers;

"**IP**" refers to Internet protocol, the protocol used for communicating data across a network;

"**IPTV**" refers to Internet protocol television, a system through which television services are delivered using the architecture and networking methods of the IP suite over a packet-switched network infrastructure, for example, the Internet and managed broadband IP networks;

"**LTE**" refers to long term evolution technology, considered a fourth generation technology for cellular mobile;

"**MPLS**" refers to multi-protocol label switching network, a mechanism in high-performance telecommunications networks which directs and carries data from one network node to the next with the help of labels and helps to preserve quality of service on IP networks;

"**MPLS VPN**" refers to a family of methods for harnessing the power of MPLS to create VPNs;

"**OFCA**" refers to the office of the CA;

"**OFTA**" refers to the Office of the Telecommunications Authority in Hong Kong and which has been replaced since 1 April 2012 by the OFCA;

"**OTT**" refers to over-the-top, which is an application accessed and delivered over the public Internet that may be a direct technical/functional substitute for traditional international telecommunications services;

"**PCCW**" refers to PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 0008) and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the U.S. (ticker: PCCWY);

"**PCCW Group**" refers to PCCW and its subsidiaries (collectively);

"**PCCW Media**" refers to PCCW Media Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of HKT;

"**PCCW Media Group**" refers to PCCW Media and its subsidiaries and joint venture;

"**POS**" refers to point-of-sale;

"**SGX-ST**" refers to the Singapore Exchange Securities Trading Limited;

"**Smartphones**" refers to mobile phones offering advanced capabilities;

"**VPN**" refers to virtual private network, a secure way of connecting to a private local area network at a remote location, using the Internet or any insecure public network to transport network data packets privately using encryption;

"**VR**" refers to virtual reality, which is the use of computer technology to create the effect of an interactive three-dimensional world in which the objects have a sense of spatial presence; and

"**Wi-Fi**" refers to the trademark used to brand a variety of products that belong to a class of wireless local area network devices.

Any discrepancies in the tables included herein between the listed amounts and the totals thereof are due to rounding.

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SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety. The summary is also qualified in its entirety by the audited consolidated financial statements of HKTGH and notes thereto and the selected financial information of Hong Kong Telecommunications (HKT) Limited (the "**Audited Financial Information**") appearing elsewhere in this Offering Circular.*

OVERVIEW

The share stapled units of the HKT Trust and HKT are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823). HKT is the holding company of each of the Guarantors.

The Group is Hong Kong's premier telecommunications service provider and a leading innovator. The Group's fixed-line, broadband, mobile communication and media entertainment services offer a unique quadruple-play experience. The Group provides a wide range of services, including local telephony, local data and broadband, international telecommunications, mobile, media entertainment, enterprise solutions and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres, to the Hong Kong public and local and international businesses.

The Group is the first local mobile operator to launch a true 5G network in Hong Kong with differentiated value-added services. Backed by its substantial holding of 5G spectrum across all bands and a robust and extensive fibre backhaul infrastructure, the Group is committed to providing comprehensive 5G network coverage across the city.

The Group delivers end-to-end integrated solutions employing emerging technologies such as 5G, cloud computing, IoT and AI to accelerate the digital transformation of enterprises and contribute to Hong Kong's development into a smart city.

With its extensive and loyal customer base, the Group has also built a digital ecosystem integrating its loyalty programme, eCommerce, travel, insurance, FinTech and HealthTech services. The ecosystem deepens the Group's relationship with its customers thereby enhancing customer retention and engagement.

HKTGH is a direct wholly-owned subsidiary of HKT and Hong Kong Telecommunications (HKT) Limited is an indirect wholly-owned subsidiary of HKTGH. HKTGH is a holding company which holds the telecommunications business of the Group and Hong Kong Telecommunications (HKT) Limited is the main operating entity in the Group.

The Group had over 15,900 employees as at 30 June 2021, located in 47 countries and cities. Approximately 67% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the U.S..

The telecommunications business of the Group comprises four business segments: telecommunications services, mobile, pay TV and other businesses:

- Telecommunications services: the telecommunications services segment provides four core areas of telecommunications products and services, being local telephony services, local data services, international telecommunications services and other services.

- Mobile: the Group currently offers 2G, 3G, 4G and 5G mobile services marketed under the "1O1O", "csl" and "SUN Mobile" brands and Wi-Fi services marketed under the "csl Wi-Fi" brand.

- Pay TV: the Group operates the Now TV business, which is the 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.

- Other businesses: primarily comprise new business areas such as The Club and HKT Financial Services, and corporate support functions.

COMPETITIVE STRENGTHS

The Group believes that its competitive strengths are as follows:

- The Group is the leading telecommunications service provider in Hong Kong with a stable business that generates strong recurring cash flow;

- The Group has attractive growth prospects for its mobile and broadband services and growth potential driven by HKT Enterprise Solutions and complementary new business lines;

- The Group has comprehensive delivery platforms;

- The Group has strong brand recognition and a reputation for quality and reliability;

- The Group has an extensive telecommunications network and infrastructure; and

- The Group has an experienced management team.

KEY STRATEGIES

The Group's key strategies are as follows:

- Increase revenue for the Group's services;

- Broaden the range of products and services offered;

- Maintain the Group's leading network infrastructure; and

- Focus on cost control and efficiency measures.

THE OFFERING

The following is a brief summary of the terms of the offering of the Notes. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes".

Issuer	HKT Capital No. 6 Limited.
Guarantors	HKTGH and Hong Kong Telecommunications (HKT) Limited.
Notes Offered	U.S.$650,000,000 aggregate principal amount of 3.00% Guaranteed Notes due 2032.
Guarantee	Payment of all sums from time to time payable in respect of the Notes is jointly and severally, irrevocably and unconditionally guaranteed by the Guarantors.
Issue Price.	99.923%.
Maturity Date	18 January 2032.
Interest Payment Dates	18 January and 18 July each year, commencing on 18 July 2022.
Interest	The Notes will bear interest from 18 January 2022 at the rate of 3.00% per annum, payable semi-annually in arrear.
Ranking of the Notes.	The Notes will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Ranking of the Guarantee	The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of each Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.

Events of Default	The Notes will contain certain events of default, including a cross acceleration provision as further described in Condition 8 of the Terms and Conditions of the Notes.
Additional Amounts	In the event that certain British Virgin Islands, Cayman Islands or Hong Kong taxes are payable in respect of payments under the Notes or the Guarantee or the payment by either Guarantor to the Issuer in order for the Issuer to make a payment in respect of the Notes, the Issuer or either Guarantor, as the case may be, will, subject to certain exceptions, pay such additional amounts as will result, after deduction or withholding of such taxes, in the receipt by the Noteholders of the amounts as would have been received by them, had no such deduction or withholding been required. See "*Terms and Conditions of the Notes – Taxation*".
Redemption for Tax Reasons	The Notes may be redeemed at any time at the option of the Issuer, in whole but not in part, at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, either the Issuer or a Guarantor is, or would be, obligated to pay additional amounts in respect of the Notes or Guarantee. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for tax reasons*".
Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at 100% of the principal amount plus accrued and unpaid interest, at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date on giving not less than 30 nor more than 60 days' notice to the Noteholders. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*".
Further Issues	The Issuer may, from time to time, without the consent of the holders of the Notes, create and issue further notes having the benefit of a guarantee from the Guarantors and the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, the issue price, and the first interest payment date and, to the extent necessary, certain temporary securities law transfer restrictions). Additional notes issued in this manner will be consolidated and form a single series with the previously outstanding Notes.
Governing Law	The Notes and the Trust Deed and all non-contractual obligations arising out of or in connection with them are governed by English law.

Denomination, Form and Registration	The Notes will be registered and issued in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Notes will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Notes have been accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS2414130711 Common Code: 241413071
Listing	Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum trading board lot size of S$200,000 or its equivalent in foreign currencies, for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.
Ratings	The Notes are expected to be rated "**Baa2**" by Moody's and "**BBB**" by S&P. A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Principal Paying Agent and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Use of Proceeds	The net proceeds of the offering of the Notes, after deducting fees, commissions and expenses, are estimated to be approximately U.S.$647.1 million. The Group will use the net proceeds for its general corporate purposes, including the repayment of existing indebtedness.
LEI Number	254900F4EZA4GPR3LG03.

SELECTED FINANCIAL INFORMATION

The following tables set forth the summary of consolidated financial information of HKTGH as at the end of and for the years indicated. The selected financial information presented below as at 31 December 2019 and 31 December 2020 and for the two years ended 31 December 2019 and 31 December 2020 has been extracted from HKTGH's audited consolidated financial statements for the year ended 31 December 2020. The information set out below should be read in conjunction with the audited consolidated financial statements of HKTGH, including the notes thereto, reproduced elsewhere in this Offering Circular.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKTGH

	As at 31 December	
	2019 **(Audited)**	**2020** **(Audited)**
	(HK$ million)	
Assets and Liabilities		
Non-current assets		
Property, plant and equipment	22,177	24,019
Right-of-use assets	2,436	2,430
Interests in leasehold land	215	202
Goodwill	49,814	49,816
Intangible assets	10,118	11,408
Fulfillment costs	1,342	1,418
Customer acquisition costs	592	670
Contract assets	346	354
Interests in associates	209	211
Interests in joint ventures	495	438
Financial assets at fair value through other comprehensive income	124	124
Financial assets at fair value through profit or loss	32	72
Derivative financial instruments	284	214
Deferred income tax assets	410	841
Other non-current assets	1,106	1,076
	89,700	93,293
Current assets		
Inventories	803	820
Prepayments, deposits and other current assets	1,809	2,205
Contract assets	576	657
Trade receivables, net	3,600	3,253
Amounts due from related companies	95	40
Financial assets at fair value through profit or loss	25	31
Derivative financial instruments	6	–
Tax recoverable	–	1
Restricted cash	115	107
Short-term deposits	486	538
Cash and cash equivalents	2,416	2,091
	9,931	9,743

	As at 31 December	
	2019 (Audited)	2020 (Audited)
	(HK$ million)	
Current liabilities		
Short-term borrowings	–	(1,552)
Trade payables	(2,342)	(3,945)
Accruals and other payables	(3,916)	(4,091)
Derivative financial instruments	–	(24)
Carrier licence fee liabilities	(195)	(215)
Amounts due to fellow subsidiaries and the immediate holding company	(10,003)	(6,616)
Amount due to a related company	–	(42)
Advances from customers	(291)	(247)
Contract liabilities	(1,361)	(1,423)
Lease liabilities	(1,065)	(1,251)
Current income tax liabilities	(908)	(863)
	(20,081)	(20,269)
Non-current liabilities		
Long-term borrowings	(40,358)	(40,719)
Derivative financial instruments	(38)	(128)
Deferred income tax liabilities	(3,874)	(4,253)
Carrier licence fee liabilities	(527)	(627)
Contract liabilities	(1,001)	(1,074)
Lease liabilities	(1,697)	(1,458)
Other long-term liabilities	(1,215)	(1,646)
	(48,710)	(49,905)
Net assets	30,840	32,862
Capital and Reserves		
Share capital	4,961	4,961
Reserves	25,821	27,839
Equity attributable to equity holder of HKTGH	30,782	32,800
Non-controlling interests	58	62
Total equity	30,840	32,862

CONSOLIDATED INCOME STATEMENT OF HKTGH

	For the year ended 31 December	
	2019 (Audited)	2020 (Audited)
	(HK$ million)	
Revenue	33,103	32,389
Cost of sales	(15,787)	(15,703)
General and administrative expenses	(9,616)	(9,487)
Other gains, net	1	359
Finance costs, net	(1,523)	(1,384)
Share of results of associates	(33)	(68)
Share of results of joint ventures	(21)	(19)
Profit before income tax	6,124	6,087
Income tax	(1,013)	(843)
Profit for the year	5,111	5,244
Profit attributable to:		
Equity holder of HKTGH	5,091	5,228
Non-controlling interests	20	16
Profit for the year	5,111	5,244

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HKTGH

	For the year ended 31 December	
	2019 (Audited)	2020 (Audited)
	(HK$ million)	
Profit for the year	5,111	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	2	68
Reclassification of currency translation reserve on disposal of subsidiaries	–	5
Cash flow hedges:		
– effective portion of changes in fair value	257	(268)
– transfer from equity to consolidated income statement	152	(82)
Costs of hedging	11	181
Other comprehensive income/(loss) for the year	422	(96)
Total comprehensive income for the year	5,533	5,148
Attributable to:		
Equity holder of HKTGH	5,513	5,134
Non-controlling interests	20	14
Total comprehensive income for the year	5,533	5,148

The following tables set forth the summary of consolidated financial information of the HKT Trust and HKT as at the end of and for the years or, as the case may be, periods indicated. The summary consolidated financial information presented below as at 31 December 2020 and 30 June 2021 and for the six months ended 30 June 2020 and 30 June 2021 has been extracted from the HKT Trust and HKT's unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 and should be read in conjunction with such unaudited condensed consolidated interim financial information of the HKT Trust and HKT, which has been reviewed by the independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA, including the notes thereto, incorporated by reference in this Offering Circular. Neither the HKT Trust nor HKT is the issuer or the guarantor in respect of the Notes. HKT directly holds 100% of the issued share capital of HKTGH and indirectly holds 100% of the issued share capital of Hong Kong Telecommunications (HKT) Limited. Please refer to the corporate structure on page 47 of this Offering Circular for further information. The interim financial information for the six months ended 30 June 2021 should not be taken as an indication of the expected financial position and financial performance of the HKT Trust and HKT, HKTGH or Hong Kong Telecommunications (HKT) Limited as at and for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND HKT

	As at 31 December	As at 30 June
	2020 (Audited)	2021 (Unaudited)
	(HK$ million)	
Assets and Liabilities		
Non-current assets		
Property, plant and equipment	24,019	24,608
Right-of-use assets	2,430	2,106
Interests in leasehold land	202	196
Goodwill	49,816	49,813
Intangible assets	11,408	12,819
Fulfillment costs	1,418	1,455
Customer acquisition costs	670	732
Contract assets	354	291
Interests in associates	211	420
Interests in joint ventures	602	557
Financial assets at fair value through other comprehensive income	124	124
Financial assets at fair value through profit or loss	49	36
Derivative financial instruments	214	144
Deferred income tax assets	841	792
Other non-current assets	1,076	1,110
	93,434	95,203

	As at 31 December 2020 (Audited)	As at 30 June 2021 (Unaudited)
	(HK$ million)	
Current assets		
Inventories	820	884
Prepayments, deposits and other current assets	2,209	2,269
Contract assets	657	639
Trade receivables, net	3,253	2,976
Amounts due from related companies	40	46
Financial assets at fair value through profit or loss	16	11
Tax recoverable	5	3
Restricted cash	107	105
Short-term deposits	538	468
Cash and cash equivalents	2,092	1,681
	9,737	9,082
Current liabilities		
Short-term borrowings	(1,552)	(60)
Trade payables	(3,945)	(3,275)
Accruals and other payables	(4,084)	(3,591)
Derivative financial instruments	(24)	(3)
Carrier licence fee liabilities	(215)	(262)
Amount due to a fellow subsidiary	(1,585)	(2,834)
Amount due to a related company	(42)	(55)
Advances from customers	(247)	(251)
Contract liabilities	(1,423)	(1,422)
Lease liabilities	(1,251)	(1,107)
Current income tax liabilities	(1,001)	(1,409)
	(15,369)	(14,269)
Non-current liabilities		
Long-term borrowings	(40,719)	(43,059)
Derivative financial instruments	(128)	(196)
Deferred income tax liabilities	(4,253)	(4,448)
Carrier licence fee liabilities	(627)	(1,584)
Contract liabilities	(1,074)	(1,057)
Lease liabilities	(1,458)	(1,270)
Other long-term liabilities	(1,643)	(1,811)
	(49,902)	(53,425)
Net assets	37,900	36,591
Capital and Reserves		
Share capital	8	8
Reserves	37,830	36,529
Equity attributable to holders of share stapled units of the HKT Trust and HKT/shares of HKT	37,838	36,537
Non-controlling interests	62	54
Total equity	37,900	36,591

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND HKT

	For the six months ended 30 June	
	2020 (Unaudited)	2021 (Unaudited)
	(HK$ million)	
Revenue	14,606	15,643
Cost of sales	(6,941)	(7,550)
General and administrative expenses	(4,608)	(5,127)
Other losses, net	(50)	–
Finance costs, net	(658)	(561)
Share of results of associates	(26)	(55)
Share of results of joint ventures	(4)	(8)
Profit before income tax	2,319	2,342
Income tax	(414)	(434)
Profit for the period	1,905	1,908
Profit attributable to:		
Holders of share stapled units of the HKT Trust and HKT/shares of HKT	1,898	1,900
Non-controlling interests	7	8
Profit for the period	1,905	1,908

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HKT TRUST AND HKT

	For the six months ended 30 June	
	2020 (Unaudited)	2021 (Unaudited)
	(HK$ million)	
Profit for the period	1,905	1,908
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(67)	(24)
Reclassification of currency translation reserve on disposal of subsidiaries	(1)	–
Cash flow hedges:		
– effective portion of changes in fair value	(23)	(91)
– transfer from equity to consolidated income statement	84	21
Costs of hedging	(6)	(11)
Other comprehensive loss for the period	(13)	(105)
Total comprehensive income for the period	1,892	1,803
Attributable to:		
Holders of share stapled units of the HKT Trust and HKT/shares of HKT	1,885	1,795
Non-controlling interests	7	8
Total comprehensive income for the period	1,892	1,803

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer, the Guarantors and the Group and the industry in which the Group operates together with all other information contained in this Offering Circular, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer, the Guarantors or the Group that are not currently known to the Issuer, the Guarantors or the Group or that the Issuer, the Guarantors or the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer, the Guarantors or the Group and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Offering Circular and their personal circumstances.

RISKS RELATING TO THE GROUP'S BUSINESS

Increased competition has adversely affected and may continue to affect the Group's businesses

The Hong Kong Government's policies relating to liberalisation of the telecommunications industry have led to increased competition for the Group in the markets for local and international telecommunications services. New licences and new types of licences have been granted to other service providers and the industry has had to adapt to significantly more competitors in the market. The Group has operated in this competitive landscape for over twenty years and has adapted its business strategies in light of the changed marketplace. Increased competition has resulted in pricing pressure, loss of market share, additional promotional, marketing and customer acquisition expenses and reduced gross margins for the Group, and such effects may be repeated in the future. The arrival and development of 5G mobile technology together with other emerging technologies, the introduction of new types of licences and the potential entry of new competitors may further intensify competition in the market.

More generally, companies in the Hong Kong telecommunications industry operate under licences granted by the CA. The Group's operations could be adversely affected if any of its existing licenses are amended, not renewed or revoked. The viability or competitiveness of the Group's businesses could also be affected by any future regulatory changes. These factors may continue to adversely affect the Group's results of operations, cash flows and financial position.

HKT, through its subsidiary, PCCW Media, holds a domestic pay TV programme services licence. The content market in Hong Kong is highly competitive and PCCW Media faces considerable competition from conventional television (including free-to-air broadcasters) as well as accelerating competition from online and digital content providers, both of which may materially and adversely affect the Group's business, prospects and results of operations. The prevalence of pirated content may also adversely affect the Group's results of operations.

Regulatory decisions could adversely affect the Group

Under the Telecommunications Ordinance (Chapter 106) of Hong Kong, the CA, on the basis of the powers originally conferred on the Telecommunications Authority, has certain discretionary powers to direct the Group and its other licensees to undertake and provide certain interconnection services and facilities and to impose the terms and conditions of interconnection. It may also direct its licensees to co-operate and share any facilities owned by them in the public interest. In the event the CA exercises such powers and the Group is required to undertake and provide interconnection services and facilities or co-operate and share facilities with other operators, the Group may be required to do so on terms which force it to incur costs that may not be fully recoverable.

Since 1995, most interconnection and facility sharing issues have been resolved either by industry agreement or OFTA (now OFCA) intervention. Fixed to fixed interconnection arrangements have not been the subject of significant regulatory dispute or OFTA (now OFCA) intervention for several years. A 2013 CA decision deregulated such arrangements and HKT has commercially negotiated follow on arrangements. Mobile to mobile interconnection has always been carried out pursuant to carrier agreements employing a "Bill and Keep" methodology. Unbundled local loop requirements have been phased out and arrangements are now deregulated and governed by carrier-to-carrier contracts. In April 2007, subject to a two-year transition period, the Telecommunications Authority withdrew its guidance for interconnection terms between fixed network and mobile telecommunications operators, leaving carriers to negotiate their own terms of interconnection. The Group has agreed fixed-mobile interconnection terms with the other Hong Kong carriers employing the "Bill and Keep" methodology.

In 2011, OFTA (now OFCA) completed its review of its Local Access Charge ("**LAC**") regime which relates to the interconnection charges applied to international voice minutes which originate or terminate on the fixed networks in Hong Kong. It decided to extend the LAC regime to the mobile network operators and to deregulate the payment levels subject to an 18-month transition period which has now ended. Commercial arrangements have now been negotiated among the carriers.

Should the Group be unable to agree interconnection terms with other licensees, including future renewal terms, the CA could intervene and invoke its power to determine these terms. The Group (with both fixed and mobile businesses) can give no assurance that the results of any regulatory intervention will be favourable to the Group.

Spectrum releases have primarily been done by auction in Hong Kong, although the earliest releases were by beauty contests. As a condition of the acquisition of CSL Holdings by HKT in May 2014, the Group did not participate in the auction held in December 2014 to re-assign the 3G spectrum bands upon expiry of their initial assignment period in October 2016. Instead, HKT exercised its "right of first refusal" to retain half of its 3G spectrum holding. Renewal of the 900 MHz and 1,800 MHz spectrum bands (whose assignment period expired in January 2021 and September 2021, respectively) was completed in March 2019, with HKT retaining 60 MHz of its original holding by exercising its "right of first refusal" and participating in a spectrum auction.

In December 2018, the CA announced plans to release spectrum for 5G mobile services. Spectrum in the 26/28 GHz band was administratively assigned to licensees in April 2019 based on the merits of their applications. HKT has been assigned 400 MHz of spectrum in this band in April 2019. Spectrum in the 3.3 GHz, 3.5 GHz and 4.9 GHz bands were auctioned in October/November 2019, with HKT successfully bidding for 30MHz, 50MHz and 40MHz of the respective bands.

Following conclusion of the consultations conducted jointly by the Secretary for Commerce and Economic Development and the CA in 2020 regarding the assignment of new spectrum in the 600/700 MHz band and the 4.9 GHz band for the provision of public mobile services, and the re-assignment arrangements for spectrum in the 850 MHz band as well as the 2.5/2.6 GHz band upon expiry of their existing assignment periods in November 2023 and March 2024 respectively, the CA has decided to conduct a single auction to determine assignment of these spectrum bands. The spectrum auction was held in October 2021 with Hong Kong Telecommunications (HKT) Limited being announced by the CA on 26 November 2021 as the successful bidder for 20 MHz of spectrum in the 700 MHz band and 50 MHz of spectrum in the 2.5/2.6 GHz band. Assignment of the 700 MHz band (for 15 years) is expected to take place in 2022 while the new assignment term for the 2.5/2.6 GHz band (also for 15 years) will commence on 31 March 2024. In the meantime, Hong Kong Telecommunications (HKT) Limited has provided certain confirmations to the CA and letters of credit to guarantee future payment of the required spectrum utilisation fees for use of the spectrum the CA is due to assign to it in the specified frequency bands.

There can be no assurance that the Group will continue to be assigned with the desired amount of spectrum in future auctions at a reasonable price, which may hinder or prevent the Group from deploying new products and services and may adversely affect the results of the Group.

The Group's substantial debt could impair its ability to implement its business plan

The Group has incurred significant indebtedness and, subject to limitations imposed by lenders, may incur additional debt in the future.

As at 31 December 2020, the Group had a combined outstanding total debts of approximately HK$50,996 million, as adjusted to give effect to (i) the Notes being offered; and (ii) the net drawdown of bank loans and other borrowings of HK$2,190 million during the period from 1 January 2021 to 6 January 2022. See "*Business of the Group – Financing*".

As long as the Group has a substantial amount of debt, the consequences of this debt to the Group's business, among other things, could be to:

- require the Group to dedicate a substantial portion of its cash flow from operations to servicing of its debt, reducing the availability of its cash flow to fund working capital, capital expenditure, acquisitions, research, development and other general corporate requirements;
- limit the Group's ability to take advantage of significant new business opportunities;
- make it more difficult for the Group to satisfy its payment obligations, particularly in the event that market or operational conditions deteriorate;
- increase the Group's vulnerability to general adverse economic and industry conditions;
- limit the Group's flexibility in planning for, or reacting to, changes in its business in which the Group operates;
- limit the Group's ability to obtain refinancing where necessary;
- increase the Group's cost of financing; and
- place the Group at a competitive disadvantage compared to its competitors that have less debt.

The Group is exposed to interest rate risk

The Group has a substantial portion of debt with a floating interest rate. The Group seeks to achieve a balance between fixed and floating interest rates for its borrowings by managing the proportion of its borrowings in fixed interest rates and floating interest rates. However, its interest rate management policy may not adequately cover the Group's exposure to interest rate fluctuations and this may result in a large interest expense and have an adverse effect on the Group's financial condition and results of operations. If interest rates rise, this may result in higher interest costs and adversely affect the Group's financial condition. This could also make it more difficult or expensive for the Group to obtain funding in the future.

The Group may not be able to obtain additional capital

The Group expects to continue to make investments to maintain, integrate and upgrade its telecommunications networks and market its new and existing services.

The Group may have to obtain additional financing for new investments, if its business plans are accelerated or are affected by changes in the telecommunications industry, or if its revenue and cash flow are significantly reduced.

Financing may not be available to the Group when needed or may only be available on terms that are unfavourable to the Group. Any financing, if available, may involve restrictive covenants. If the Group is unable to raise the amounts required on favourable terms, it may be unable to pursue its planned business strategy, and there can be no assurance that future conditions in the financial markets will not adversely affect its ability to finance its operations. If the Group cannot raise sufficient funds on commercially acceptable terms, it may need to delay or abandon some of its developments and expansion plans or otherwise forgo market opportunities. In addition, if the Group cannot raise new debt or refinance its debt, its ability to service its debt may be affected.

The Group faces challenges in executing its growth strategy

The Group's business strategy may require it to develop its business both organically and through new business combinations, strategic investments, acquisitions and disposals. However, the Group may not be able to enter into new business combinations, strategic investments, acquisitions and disposals due to regulatory or other constraints and this could have a material adverse effect on the Group's results of operations.

In addition, acquisitions typically involve a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption to the Group's on-going business and the distraction of its management;
- the difficulty of incorporating acquired technology and rights into the Group's products and services;
- the impairment of relationships with employees and customers as a result of integration of new management and personnel;
- potential unknown liabilities associated with acquired businesses;
- higher than planned requirements to preserve and grow the value of acquired companies or, if the Group is unable to obtain access to such funds, possible loss of value of the acquired companies; and

- adverse effects on the Group's reported operating results due to the amortisation of and potential impairment provision for goodwill and other intangible assets associated with acquisitions and losses sustained by acquired companies after the date of acquisitions.

Disposals typically involve a number of risks, including:

- the potential disruption to the Group's on-going business and distraction of its management;

- proprietary and confidential information about the Group's operations may be disclosed in the due diligence process which may have an adverse effect on the Group's competitive position; and

- the impairment of relationships with employees and customers as a result of separation of businesses, management and product and/or service offerings.

The Group may also face challenges in growing its business organically, including:

- competition in its markets and challenges in maintaining customers and enhancing its services;

- the existence of regulatory requirements and barriers to entry into new areas of business;

- the complexity of large scale projects such as building the 5G network with full coverage within a desired time frame and at desirable costs; and

- the new initiatives may not be able to generate sufficient revenues to justify the initial or ongoing cost of investment.

There is no assurance that the Group will be able to implement its growth strategies successfully or that it will be able to expand the Group's activities or portfolio at any specified rate or to any specified size. The Group may not be able to complete its plans on schedule or without incurring additional expenditures or at all.

If market conditions change, if operations do not generate sufficient funds or for any other reason, the Group may decide to delay, modify or forgo some aspects of its growth strategies. The Group's future results of operations may be adversely affected if it is unable to implement growth strategies successfully.

The Group may be susceptible to risks associated with expanding its operations overseas, which could harm its operating results

The Group plans to offer the network, operations and management experience and expertise that it has acquired in Hong Kong to clients and business partners in overseas markets. The Group expects to commit substantial time and development resources to customising and developing its products and services for overseas markets and to developing relevant sales and support channels. The Group's ability to expand into these overseas markets may be constrained by the pace of deregulation in individual markets, including the timing of the removal of restrictions on foreign participation. In addition, operations outside of Hong Kong will be subject to certain risks, including:

- lack of familiarity with the overseas market, such as customer preferences and competitors' practices;

- multiple and conflicting regulations relating to communications, use of data and control of Internet access;

- changes in regulatory requirements, tariffs and import and export restrictions;
- increased costs associated with complying with the laws of numerous jurisdictions;
- fluctuations in currency exchange rates;
- lack of clarity in the interpretation of laws and regulations;
- insufficient protection of intellectual property rights;
- changes in political and economic stability; and
- potentially adverse tax consequences.

Any of these factors could have a material and adverse effect on the Group's business, results of operations and financial condition.

Any asset impairment could adversely affect the Group's financial results

The Group has non-current assets such as property, plant and equipment, right-of-use assets, interests in leasehold land, fulfillment costs, customer acquisition costs, intangible assets, goodwill and investments in associates and joint ventures, and it is required to review these assets for impairment at the end of each reporting period. This review is made with reference to the recoverable amounts in respect of those assets. Impairment of any of these assets could adversely affect the Group's financial condition and results of operations. The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value-in-use. If the carrying value of an asset as reflected in the Group's consolidated statement of financial position is higher than its recoverable amount, it must make an asset impairment charge to its consolidated income statement.

The recoverable amount of an asset depends on the prevailing market conditions at the time of the review, the nature of the asset, its fair value and estimated future cash flows that are expected to be derived from the asset. The discount rate used in this review reflects the Group's current market assessment of the time value of money and the risks specific to the asset. Any reduction in the recoverable amount of an asset below its carrying value, whether due to a weak economic environment, challenging market conditions, asset or portfolio sale decisions by management or any other condition or occurrence, could be charged to the income statement and could thus materially and adversely affect the Group's results of operations and shareholders' equity in the period in which the impairment occurs.

The Group is exposed to risks relating to certain critical accounting estimates

Note 3 to the consolidated financial statements of HKTGH sets out certain critical accounting estimates, including certain subjective estimates and judgments made by the Group's management team. The underlying assumptions on which these critical accounting estimates were based may not turn out to be correct, the result of which may have a material adverse effect on the Group's results of operations and financial position. In addition, accounting estimates used in the preparation of HKTGH's consolidated financial statements in relation to taxes may not be recognised or agreed by the relevant tax authorities in their ultimate assessments. Investors should refer to Note 3 to the consolidated financial statements of HKTGH, which are incorporated in this Offering Circular for further information.

The Group's ability to introduce new technologies to successfully respond to technological developments and to adapt existing technologies may be limited

The Group's operations depend on the successful deployment of continuously evolving technologies, its response to technological and industry developments and its ability to adapt to the emergence of disruptive technologies.

The Group cannot be certain that technologies will be developed in time to meet changing market conditions and will perform according to expectations or that they will achieve commercial acceptance. The failure of vendor performance or technology performance to meet the Group's expectations or the failure of technology to achieve commercial acceptance could mean that the Group has to make additional unexpected capital expenditures or the Group is left with obsolete and outdated technologies. In addition, the Group may not be able to adapt its services to changing market conditions or establish and maintain effective distribution channels for its services. Competitors may adapt more successfully to changing market conditions, establish more effective distribution channels or introduce technologies that make the Group's products and services less competitive.

With respect to any current or future technological developments and/or changes, the Group may be required to incur significant future capital expenditure spending for the expansion of its network capacity and infrastructure. The rapid advancement in technology may require the Group to replace and/or upgrade its network infrastructure and as a result, incur additional capital expenditure, which may be significant, in order to maintain the latest technological standards and remain competitive against newer products and services. As any future expansion or upgrade to the Group's network infrastructure will be dependent in part on the future demand for its services, it is difficult for the Group to predict with certainty its future capital expenditure costs. Future capital expenditure costs may be beyond the control of the Group. There is no assurance that sufficient incremental revenue can be generated by the Group to cover such capital expenditure. In addition, there is no assurance that the capital expenditure costs associated with the future expansion of the Group's network may not increase due to any impact resulting from circumstances outside of the Group's control, for example, potential delay in network rollout or disruptions in resources supply due to the ongoing coronavirus ("**COVID-19**") pandemic. In the event that the Group's actual capital expenditure costs exceed the budget, the Group may require additional financing in order to meet its projected capital and other expenditure requirements. There is also a risk that the Group may not have invested sufficiently in its network infrastructure and may in the future require further capital expenditure to maintain or expand its network.

In respect of the mobile technology, the Group cannot guarantee the successful deployment of 5G as it would depend on various factors such as the availability of compatible handsets, market demands from enterprise and consumer users and macro-economic factors as affected by the continuing COVID-19 pandemic. The Group's future results may be adversely affected if the Group's targeted level of deployment is not met.

Global trade and geopolitical activities, such as the evolving trade monitoring and restrictions placed by the U.S. Government on certain enterprises based in mainland China may also have a negative impact on the Group's ability to choose its vendors or business partners to provide the necessary services or equipment in support of its businesses or to develop new technologies. Such form of limitations, restrictions or prohibitions would require the Group to deploy additional resources to adapt its services to alternative vendors or business partners or to re-align its development plans, which may negatively affect the Group's financial conditions and results of operations.

The Group is exposed to risks relating to cyber-attacks and/or other data security breaches

The Group handles significant amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats and/or other data security breaches. The Group's operations, reputation and financial performance could be adversely impacted if the Group sustains cyber-attacks and/or other data security breaches that disrupt its operations, which may result in litigation action from customers and/or regulatory fines and penalties and have an adverse impact on the reputation of the Group. The Group makes extensive use of multiple channels to keep informed of emerging cyber security threats and to identify and implement measures intended to mitigate the occurrence and/or consequences of such risks being realised. However, there can be no assurance that these initiatives are sufficient or effective or the Group's business would not be adversely affected by such attacks or breaches.

A recurrence of natural disasters, acts of God, occurrence of epidemics and pandemics, acts of war and other disasters in mainland China, Hong Kong or other countries may adversely affect the Group's businesses, results of operations and financial condition

Natural disasters, epidemics and pandemics, such as the ongoing COVID-19 pandemic, and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people in the cities the Group operates. Some regions where the Group operates have been under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics and pandemics such as COVID-19. The occurrence or reoccurrence of such disasters or outbreaks in mainland China, Hong Kong or other countries, such as the continuing COVID-19 pandemic, may adversely affect the Group's customers and its ability to develop its business.

In addition, measures implemented by local governments to contain the spread of COVID-19 or any other diseases may have a significant adverse impact on the Group. The global travel restrictions implemented by governments to contain the spread of COVID-19 has reduced international travel significantly, causing the number of customers using the Group's roaming service to decrease. The COVID-19 pandemic continues to affect many countries globally and there remains significant uncertainty as to when the pandemic will end and whether governments will extend or implement further travel restrictions or other restrictive measures to contain the COVID-19 pandemic. Even if such restrictions are lifted, there can be no assurance that demand for international travel, and in turn, the Group's roaming and prepaid and mobile virtual network operator services, will return to pre-pandemic levels, which may materially adversely affect the Group's roaming, prepaid and mobile virtual network operator revenues and overall business, results of operations and financial condition.

The occurrence of any disasters or outbreaks may also cause a general slowdown or prolonged recovery of the economy, and hence, the demand for the Group's products and services. Acts of war and terrorist attacks may cause damage or disruption to the Group, its employees and its markets, any of which could materially impact the Group's sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause a material adverse effect on the Group's business. The prolonged effects of any disasters, epidemics and pandemics or acts of war may have a material adverse impact on the Group's business, results of operations and financial condition.

An economic downturn could adversely affect the Group's results of operations

Economic developments outside Hong Kong could adversely affect the telecommunications sector in Hong Kong. The global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions. Slowdown in the global economies has led, and may continue to lead, to significant declines in corporate earnings, employment, household wealth, consumer demand and as a result may adversely affect economic growth in Hong Kong. More recently, difficulties faced by business enterprises during the COVID-19 pandemic, inflationary pressure triggered by resumption of economic activities, challenges of supply chain shortages and surging energy prices, amplified geopolitical tensions over trade and technology and uncertainty of the longer-term effects of Brexit have caused, and may continue to cause, volatility in the financial markets, which as a result may adversely affect, economic growth in Hong Kong and other markets globally, and could significantly undermine the stability of the global economies.

There can be no assurance that the global economic downturn will not lead to a significant reduction in corporate investment and consumer spending relevant to the Group's business. For example, while national governments have proposed or adopted various forms of economic relief and liquidity easing measures to contain the economic impacts of the COVID-19 pandemic and stabilise markets, there can be no assurance that such monetary and fiscal policy measures will have the intended effects or market volatilities will not persist. Measures such as social distancing, travel restrictions and mandatory suspension of business at public premises to contain the spread of COVID-19 and its variants in countries affected by the COVID-19 pandemic have also precipitated an economic slowdown in those economies, which, if prolonged, could further negatively impact the global economies. The pace of economic recovery remains highly uncertain and a prolonged recovery of the domestic or global economies could adversely affect the Group's financial conditions and results of operations.

Changes in the global credit and financial markets may diminish the availability of credit significantly and lead to an increase in the cost of financing. Early signs of economic recovery have triggered other social and economic issues including inflation. Some central banks have reacted to the threat of inflation by raising their policy interest rates. In the U.S., while investors generally look ahead to the Federal Reserve's tapering and interest rate hikes, the pace and efficacy of these monetary policies remain uncertain. As COVID-19 continues to evolve and impact the global economy, the economic outlook may change over time leading to a reduction in credit supply and higher volatility of interest rates. The Group may have difficulty in accessing the financial markets, which could make it more difficult or expensive to obtain funding in the future. There can be no assurance that the Group will be able to raise finance at a reasonable cost, or at all, which could in turn materially and adversely affect the Group's prospects, results of operations and financial condition.

Currency fluctuations could adversely affect the Group's results of operations

Although a significant part of the Group's outstanding debt and guarantee obligations are denominated in foreign currencies including U.S. dollars and Euros, the Group has entered into a series of cross-currency swap and forward contracts with reputable financial institutions to convert these liabilities denominated in foreign currencies back into the Hong Kong dollar. Whilst such transactions hedge the Group's foreign currency risk, they do expose the Group to counterparty risk. The Hong Kong dollar has been pegged to the U.S. dollar since 1983. However, there is no assurance that such a peg will be maintained in the future. Therefore the Group's results of operations and ability to discharge its obligations could be adversely affected by the discontinuation or revaluation of the peg between the Hong Kong dollar and U.S. dollar or the insolvency of its counterparties. In addition, even if the peg continues, the Group's operating costs could be adversely affected by substantial fluctuations in the U.S. dollar.

Although the Group has an insignificant portion of revenues and costs denominated in Renminbi, substantial fluctuations in Renminbi may also have an adverse impact on the Group's results of operations and financial condition.

The Group is exposed to risks relating to complex transactions and contractual arrangements

The Group has entered into a number of complex transactions and contractual arrangements. These include, among other things, financing and other contracts and instruments, investments, acquisitions, sales agreements, intra group transfer pricing arrangements and other contractual arrangements. These transactions and contractual arrangements could give rise to differences in interpretation, disputes, claims or other developments with the applicable counterparties or regulators, which could have a material adverse effect on the Group's business, financial conditions or results of operations.

Loss of key management and other qualified personnel could weaken the Group's businesses

A small group of key executive officers manages the Group and the loss of services of one or more of these key individuals could affect the Group's ability to make successful strategic decisions.

The service contracts with these executive management are terminable with notice periods ranging from three to twelve months. The Group cannot guarantee that these contracts will allow it to retain key employees. Additionally, the Group does not presently maintain any "key person" insurance.

The Group's management believes that its growth and success will depend largely upon its ability to attract, train, retain and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating and technical personnel. The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's business, prospects and results of operations.

Economic, social and political conditions in the countries in which the Group operates may materially and adversely affect the Group's business

The Group's overall success depends, in part, upon its ability to operate and succeed in different economic, social and political conditions. Political unrest such as protests or demonstrations in the countries in which the Group operates could disrupt economic activities and adversely affect the Group's business. For example, the social conditions in Hong Kong in recent years has led to a decrease in inbound tourism to Hong Kong, decreased consumer spending and an overall negative impact on the domestic economy. There can be no assurance that protests or demonstrations and other changes in the future to economic, social or political conditions in the countries in which the Group operates will not have a material adverse effect on the Group's business, financial conditions and results of operations.

The continuity of the Group's services is highly dependent on the proper functioning of its networks, facilities and infrastructure, and any loss or damage to or failure in the networks or such facilities or infrastructure could materially adversely affect the Group's business

The Group's networks, facilities and infrastructure are vulnerable to loss or damage or cessation of operations from fire, earthquakes, severe storms, heavy rainfall, power loss, telecommunications failures, network software flaws, vandalism, transmission cable cuts, political unrest and other catastrophic events. The Group may experience equipment failures or shutdowns relating to individual points of presence or even catastrophic failure of its entire networks, facilities and infrastructure. The provision of the Group's services depends on the quality, stability, resilience and robustness of its integrated networks, facilities and infrastructure.

For example, the operation of the Group's business requires a large amount of power. The Group cannot be certain that there will be adequate power in all of the locations in which it operates. In case of a power loss, the Group may incur a loss or damage to its equipment. The Group's customers may also seek damages from it for any loss or damage they may suffer as a result.

Any loss or sustained failure of the Group's network, its servers, facilities, infrastructure or any link in the delivery chain, whether from operational disruption, natural disaster or otherwise or any failure by the Group's discovery recovery plans or insurance policies to mitigate these risks, could have a material adverse effect on the Group's business, financial condition and results of operations.

Exposure to perceived risks associated with electromagnetic energy could adversely affect the Group's results of operations

Various reports have alleged that there may be possible adverse health consequences associated with the operations of communications or transmission devices due to potential exposure to electromagnetic energy.

While the Group is not aware of any substantiated evidence of public health effects from exposure to the levels of electromagnetic energy typically emitted from communicating or transmitting devices, there is a risk that an actual or perceived health risk associated with communications or transmission devices could result in litigation, reduced demand for the Group's services and new government imposed restrictions. Any of the above could have a material adverse effect on the Group's financial performance and results of operations.

Any downgrading of the corporate ratings and/or outlook assigned to Hong Kong Telecommunications (HKT) Limited by rating agencies could adversely affect the Group's business and financial conditions

As at the date of this Offering Circular, Hong Kong Telecommunications (HKT) Limited has a rating of "**Baa2**" with Moody's with a stable outlook and "**BBB**" with S&P with a stable outlook. S&P took a consolidated view from PCCW in analysing the rating of Hong Kong Telecommunications (HKT) Limited. There can be no assurance that the ratings and/or outlook assigned will remain in effect or that such ratings and/or outlook will be revised in the future. Any adverse revision to Hong Kong Telecommunications (HKT) Limited's corporate and debt ratings by any rating agency may adversely affect the Group's business, its financial performance and the trading price of the Notes. Further, the Group's ability to obtain financing or access to capital markets may become limited, thereby reducing its financial flexibility to refinance existing indebtedness or fund investments in the future. The cost of financing may also increase as a result of the rating changes. Any of the above could adversely affect the Group's business, results of operations and financial condition.

RISKS RELATING TO THE NOTES

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

A trading market for the Notes may not develop

No public market exists for the Notes. Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Notes on the Official List of the SGX-ST; however, the offering and settlement of the Notes is not conditioned on obtaining a listing. No assurances can be given as to whether the Notes will be, or will remain, listed on the SGX-ST or whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If the Notes fail to or cease to be listed on the SGX-ST, certain investors may not invest in, or continue to hold or invest in, the Notes. If any of the Notes are traded after their initial issue, they may trade at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar securities and the market for the Notes and other factors, including general economic conditions and the Group's financial condition, performance and prospects. No assurance can be given as to the future price level of the Notes after their initial issue.

The Notes may be sold to a limited number of investors and liquidity of the Notes may be adversely affected if a significant portion of the Notes are bought by limited investors.

Insolvency laws of the British Virgin Islands and the Cayman Islands may differ from the bankruptcy laws of other jurisdictions with which holders of the Notes are familiar

The insolvency laws of the British Virgin Islands and Cayman Islands and other local insolvency laws may differ from the bankruptcy laws of other jurisdictions with which the holders of the Notes are familiar. Since the Issuer is incorporated under the laws of the British Virgin Islands, any insolvency proceedings relating to the Issuer, regardless of where they were brought, would likely involve British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions. In addition, HKTGH is incorporated in the Cayman Islands and the insolvency laws of Cayman Islands may also differ from the laws of other jurisdictions with which the holders of the Notes are familiar.

Investors in the Notes may be subject to foreign exchange risk

The Notes are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars will be subject to foreign exchange risks by virtue of an investment in the Notes, due to, among other things, economic, political, social and other factors over which none of the Issuer or the Guarantors has any control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Notes for an investor and could result in a loss when the return on the Notes is translated into such currency. Conversely, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes in the event of an appreciation.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Guarantors' and the Group's revenues, earnings and cash flows and proposals of new investments, strategic alliances, acquisitions and/or divestments, interest rates and fluctuations in prices for other companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There is no assurance that these developments will not occur in the future.

Claims by holders of the Notes are structurally subordinated to the Guarantors' subsidiaries

The Issuer is a special purpose vehicle and its ability to make payments in respect of the Notes depends largely upon the repayment of principal and interest by other members of the Group; the ability of the Guarantors to make payments under the Guarantee depends largely upon the receipt of dividends and distributions, interest payments or advances from their respective subsidiaries and associates. The ability of the members of the Group to make such repayments to the Issuer or to pay such amounts to the Guarantors may be subject to the profitability of the Group and applicable laws. Payments by other members of the Group to the Issuer are structurally subordinated to all existing and future liabilities and obligations of the Guarantors' subsidiaries. Claims of creditors of such subsidiaries will have priority as to the assets of such subsidiaries over the Guarantors and their creditors, including the Issuer.

Credit ratings assigned to the Notes may not reflect the potential impact of all risks that may affect the value of the Notes

The Notes are expected to be rated by Moody's and S&P. The ratings address the Issuer's and the Guarantors' ability to perform their respective obligations under the Terms and Conditions of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The Group cannot assure investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. None of the Issuer or the Guarantors has any obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors

The Terms and Conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes, including holders of the Notes who did not attend and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of individual holders of the Notes.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of holders of the Notes, agree to any modification of the Trust Deed, the Terms and Conditions of the Notes and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Notes and to any modification of the Trust Deed, the Terms and Conditions of the Notes or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with mandatory provisions of law.

In addition, the Trustee may, without the consent of the holders of the Notes, authorise or waive any proposed breach or breach of the Notes, the Trust Deed, the Terms and Conditions of the Notes or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Notes will not be materially prejudiced thereby.

The Notes will be represented by a Global Certificate, and holders of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing Systems

The Notes will be represented by beneficial interests in a Global Certificate, which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream (the "**Clearing Systems**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems and the Issuer, failing which the Guarantors, will discharge its payment obligations under the Notes by making payments to the Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the Clearing Systems to receive payments under the Notes. None of the Issuer, the Guarantors, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

Integral multiples of less than the specified denomination

The denominations of the Notes are U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a holder of Notes who, as a result of trading such amounts, holds a principal amount of less than U.S.$200,000 will not receive a definitive certificate in respect of such holding of Notes (should definitive certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more denominations. If definitive certificates are issued, holders of the Notes should be aware that Notes with aggregate principal amounts that are not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

TERMS AND CONDITIONS OF THE NOTES

The following (other than the words in italics) is the text of the Terms and Conditions of the Notes which will appear on the reverse side of each of the individual certificates evidencing the Notes:

The U.S.$650,000,000 3.00% Guaranteed Notes due 2032 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of HKT Capital No. 6 Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 18 January 2022 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, HKT Group Holdings Limited ("**HKTGH**") and Hong Kong Telecommunications (HKT) Limited ("**HKT**", each of HKTGH and HKT, a "**Guarantor**" and HKTGH and HKT together, the "**Guarantors**") and The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 18 January 2022 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantors, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours (being 9:00 a.m. to 3:00 p.m.) with prior written notice and satisfactory proof of holding at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1 FORM, DENOMINATION, STATUS AND GUARANTEE

(a) Form and denomination

The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) Status of the Notes

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) Guarantee of the Notes

The Guarantors have in the Trust Deed jointly and severally, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of each Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), and will be exchangeable for individual certificates only in the circumstances set out therein.*

2 REGISTER, TITLE AND TRANSFERS

(a) Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside of the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) Title

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) Transfers

Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. No transfer of title to a Note will be valid unless and until entered on the Register. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) Registration and delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (Transfers) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) Closed periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder upon prior written request and satisfactory proof of holding.

3 NEGATIVE PLEDGE

Neither Guarantor will, or will permit any of its Principal Subsidiaries (other than Listed Principal Subsidiaries) to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Indebtedness of the Guarantors or any of their respective Principal Subsidiaries (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes will be secured either at least equally and ratably with such Indebtedness or by such other Lien as shall have been approved by the Holders of not less than a Majority in aggregate principal amount of the Notes at the time outstanding (as defined in the Trust Deed), for so long as such Indebtedness will be so secured, unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness (excluding that of Listed Principal Subsidiaries and their respective Subsidiaries) entered into after the date hereof would not exceed 50% of either Guarantor's Adjusted Consolidated Net Worth, save for:

(a) Liens existing on or prior to the Issue Date;

(b) Liens for taxes or assessments or other applicable governmental charges or levies;

(c) Liens created or arising by operation of law or created in the ordinary course of business, including, but not limited to, landlords' liens and statutory liens of carriers, warehousemen, mechanics, materialmen, vendors and other liens securing amounts which are not more than 60 days overdue or which are being contested in good faith;

(d) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts or undertakings, performance and return of money bonds, interconnection, access or resale agreements with other telecommunications companies or organisations, and similar obligations;

(e) easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of either Guarantor and any of their Principal Subsidiaries;

(f) Liens created on any property or assets acquired, leased or developed (including improved, constructed, altered or repaired) after the date hereof; provided, however, that (i) any such Lien shall be confined to the property or assets acquired, leased or developed (including improved, constructed, altered or repaired); (ii) the principal amount of the debt encumbered by such Lien shall not exceed the cost of the acquisition or development of such property or assets or any improvements thereto (including any construction, repair or alteration) or thereon; and (iii) any such Lien shall be created concurrently with or within three years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or assets;

(g) rights of set off of a financial institution with respect to deposits or other accounts of either Guarantor or any of their Principal Subsidiaries held by such financial institution in an amount not to exceed the aggregate amount owed to such financial institution by the relevant Guarantor or the relevant Principal Subsidiary, as the case may be;

(h) Liens on documents and the goods they represent in connection with letters of credit, trade finance and similar transactions entered into in the ordinary course of business;

(i) Liens arising in connection with industrial revenue, development or similar bonds or other indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);

(j) Liens in favour of either Guarantor or any of their Principal Subsidiaries;

(k) leases, subleases, licenses and sublicenses granted to third parties in the ordinary course of business;

(l) attachment, judgment and other similar Liens arising in connection with court proceedings which are effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings;

(m) any Lien against any property or assets of a Person existing at the time such Person becomes a Principal Subsidiary or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(n) any Lien existing on any property or assets prior to the acquisition thereof, which Lien was not created in connection with the acquisition thereof, except for Liens permitted pursuant to clause (f) above;

(o) Liens on any property or assets of either Guarantor and any of their Principal Subsidiaries in favour of any government or any subdivision thereof, securing the obligations of the relevant Guarantor or the relevant Principal Subsidiary under any contract or payment owed to such governmental entity pursuant to applicable laws, rules, regulations or statutes;

(p) Liens created in connection with any sale and leaseback transaction;

(q) any renewal or extension of any of the Liens described in the foregoing clauses which is limited to the original property or assets covered hereby; or

(r) Liens in respect of Indebtedness with respect to which either Guarantor or any of their Principal Subsidiaries has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the relevant Guarantor and its subsidiaries in respect thereof (other than the obligations that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full).

In these Conditions:

"**Adjusted Consolidated Net Worth**" means in respect of a Guarantor, the sum of (a) all amounts paid up (or credited as paid up) on all classes of the relevant Guarantor's issued share capital, revenue or capital reserves, capital contribution, or any other accounts that are included as shareholders' funds under Hong Kong GAAP and (b) the aggregate outstanding principal amount of Subordinated Indebtedness of the relevant Guarantor;

"**Calculation Amount**" means U.S.$1,000;

"**Capital Stock**" means any and all shares, interests (including joint venture interests), participations or other equivalents (howsoever designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);

"**guarantee**" means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "**guarantee**" shall not include endorsements for collection or deposit in the ordinary course of business.

"**Hong Kong GAAP**" means, at the time of any determination required hereunder, generally accepted accounting principles in Hong Kong;

"**Indebtedness**" of any Person means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance and that is evidenced by any agreement or other instrument, excluding trade payables; provided, however, that for the purposes of determining the amount of Indebtedness of each Guarantor outstanding at any relevant time the amount included as Indebtedness of the relevant Guarantor in respect of finance leases shall be the net amount from time to time properly characterised as "**obligations under finance leases**" in accordance with Hong Kong GAAP;

"**Lien**" means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind;

"**Listed Principal Subsidiary**" means any Principal Subsidiary, the shares of which are at the relevant time listed on The Stock Exchange of Hong Kong Limited or any other recognised stock exchange;

"**Majority**" means greater than 50% of those Holders attending and voting at a meeting;

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

"**Principal Subsidiary**" means a Subsidiary of either Guarantor:

(a) as to which one or more of the following conditions is satisfied:

(i) its net profit or (in the case of a Subsidiary of the relevant Guarantor which has Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 5% of the consolidated net profit of the relevant Guarantor and its Subsidiaries (before taxation and exceptional items), but in each case after deducting minority interests in Subsidiaries; or

(ii) its net assets or (in the case of a Subsidiary of the relevant Guarantor which has Subsidiaries) consolidated net assets attributable to the relevant Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 5% of the consolidated net assets (after deducting minority interests in Subsidiaries) of the relevant Guarantor and its Subsidiaries;

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary of the relevant Guarantor and the then latest audited financial statements of the relevant Guarantor provided that: (A) in the case of a Subsidiary of the relevant Guarantor acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary of the relevant Guarantor which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the relevant Guarantor; (C) if the accounts of a Subsidiary of the relevant Guarantor (not being a Subsidiary referred to in (A) above) are not consolidated with those of the relevant Guarantor then the determination of whether or not the Subsidiary of the relevant Guarantor is a Principal Subsidiary shall, if the relevant Guarantor requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the relevant Guarantor and its Subsidiaries; or

(b) to which is transferred all or substantially all of the assets of a Subsidiary of the relevant Guarantor which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (a) above) and the Subsidiary of the relevant Guarantor to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the auditors of the relevant Guarantor as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error;

"**Subordinated Indebtedness**" means the principal amount of Indebtedness of either Guarantor (including perpetual debt, which either Guarantor is not required to repay) which:

(a) has a final maturity and a weighted average life to maturity longer than the Maturity Date (as defined in Condition 5(a) (*Redemption and Purchase – Scheduled redemption*); and

(b) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Notes including:

(i) a provision that in the event of any bankruptcy, insolvency or other similar proceeding in respect of the Guarantor, the holders of the Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon;

(ii) a provision that if an event of default has occurred and is continuing hereunder, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such event of default shall have been cured or waived or shall have ceased to exist; and

(iii) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Note is outstanding;

"**Subsidiary**" means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person; and

"**Voting Shares**" means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

4 INTEREST

The Notes bear interest from 18 January 2022 (the "**Issue Date**") at the rate of 3.00% per annum, (the "**Rate of Interest**") payable semi-annually in arrear in equal instalments on 18 January and 18 July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$15.00 in respect of the Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5 REDEMPTION AND PURCHASE

(a) Scheduled redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at 100% of their principal amount on 18 January 2032 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 January 2022; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) either Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay Additional Amounts as provided or referred to in Condition

7 (*Taxation*) or the Guarantee of the Notes, as the case may be or either Guarantor has or becomes obliged to make any such withholding or deduction as is referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands (in the case of HKTGH) and Hong Kong (in the case of HKT) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 11 January 2022; and (B) such obligation cannot be avoided by the relevant Guarantor in each case, taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the relevant Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or the relevant Guarantor (as the case may be) shall deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by two directors of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by two directors of the relevant Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances (each, a "**Certificate**"); and

(ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the relevant Guarantor has or will become obliged to pay Additional Amounts as a result of such change or amendment (an "**Opinion**").

The Trustee shall be entitled to accept and rely upon such Certificate and Opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) or (as the case may be) (ii)(A) and (ii)(B) above, in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer (failing which, the Guarantors jointly and severally) shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) Redemption at the Option of the Issuer

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued and unpaid up to the date fixed for redemption.

Upon the expiry of any such notice as is referred to in this Condition 5(c), the Issuer (failing which, the Guarantors jointly and severally) shall be bound to redeem the Notes in accordance with this Condition 5(c).

(d) No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*), (b) (*Redemption for tax reasons*) and (c) (*Redemption at the Option of the Issuer*) above.

(e) Purchase

The Issuer, each Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(f) Cancellation

All Notes so redeemed or purchased by the Issuer, either Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6 PAYMENTS

(a) Method of payment

Payments of principal and interest shall be made by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*) any law implementing an intergovernmental approach thereto.

(c) Payments on business days

Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(d) Partial payments

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(e) Record date

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

7 TAXATION

All payments in respect of the Notes by or on behalf of the Issuer or either Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands (in the case of the Issuer) or the Cayman Islands (in the case of HKTGH) and Hong Kong (in the case of HKT) or any political subdivision thereof or any authority therein or thereof having power to tax ("**Taxes**"), unless the withholding or deduction of such Taxes is required by law or the interpretation or administration thereof. In that event the Issuer or (as the case may be) either Guarantor shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(a) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection between the Holder or beneficial owner of a Note, as the case may be, and the Cayman Islands, the British Virgin Islands or Hong Kong or any political subdivision or any authority thereof or therein or any territory or possession thereof or area subject to its jurisdiction, as the case may be, otherwise than merely holding such Note or receiving amounts in respect thereof;

(b) in respect of any Note presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period;

(c) in respect of any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note;

(d) in respect of any such Taxes that would not have been so imposed, deducted or withheld if the Holder or beneficial owner of a Note or the beneficial owner of any payment on such Note had:

    (i) made a declaration of non-residence or any other claim or filing for exemption to which it is entitled; or

    (ii) complied with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the Cayman Islands, the British Virgin Islands or Hong Kong of such Holder or beneficial owner of such Note,

    provided that such declaration of non-residence or other claim or filing for exemption or such compliance is required by the applicable law of the Cayman Islands, the British Virgin Islands or Hong Kong as a precondition to exemption from, or reduction in the rate of the imposition, deduction or withholding of, such Taxes; and at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption or such compliance is required under the applicable law of the Cayman Islands, the British Virgin Islands or Hong Kong, the Holder of such Note at that time has been notified by the Issuer, the relevant Guarantor or any other person through whom payment may be made that a declaration of non-residence or other claim or filing for exemption or such compliance is required to be made;

(e) in respect of any payment under or with respect to a Note to any Holder that is a fiduciary or partnership or any person other than the sole beneficial owner of such Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such Note would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note;

(f) in respect of any estate, inheritance, gift, sales, excise, transfer or personal property tax or similar tax, assessment or governmental charge; or

(g) any combination of items (a) through (f) above.

The "**relevant date**" in relation to any Note means (i) the due date for payment thereof and (ii) if the full amount payable on such due date has not been received in New York City or Hong Kong by the Principal Paying Agent on or prior to such due date, the first date on which such full amount has been so received and notice to that effect has been given to the Holders.

Any reference in these Conditions to the payment of principal or interest in respect of any Note or in respect of the Guarantee of the Notes shall be deemed to include the payment of Additional Amounts provided for herein to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant hereto.

The foregoing provisions in this Condition 7 shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer (including any entity substituted in place of the Issuer, or of any previous substituted company, pursuant to Condition 12(c) (*Substitution*)) or either Guarantor is organised or any authority therein or thereof having the power to tax (a "**Successor Jurisdiction**"), substituting such Successor Jurisdiction for the Cayman Islands, the British Virgin Islands or Hong Kong, as the case may be.

Neither the Trustee nor the Agents shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, Guarantors, Noteholders or any other person to pay such tax, duty, charges, withholding or other payment.

8 EVENTS OF DEFAULT

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment of principal*: the Issuer fails to pay principal of any Note within five business days after the due date for such payment; or

(b) *Non-payment of interest*: the Issuer fails to pay interest on any Note within 30 days after the due date for such payment; or

(c) *Breach of other obligations*: the Issuer or either Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default continues for 60 days after there has been given, to the Issuer and the Guarantors, by the Trustee a written notice specifying such default and requiring it to be remedied; or

(d) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by either of the Guarantors not to be) in full force and effect; or

(e) *Cross-acceleration*:

(i) the Issuer or either Guarantor fails to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Issuer, either Guarantor or any Principal Subsidiary;

(ii) acceleration of the maturity of any Indebtedness of the Issuer, either Guarantor or any Principal Subsidiary following a default by the Issuer, either Guarantor or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 days after receipt of the written notice as provided herein;

(iii) the Issuer, either Guarantor or any Principal Subsidiary fails to pay any amount under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 days after receipt of written notice from the Trustee;

provided, however, that no such event set forth in paragraphs (i), (ii) or (iii) above shall constitute an event of default unless the aggregate outstanding Indebtedness to which all such events relate exceeds U.S.$30,000,000 (or its equivalent in any other currency); or

(f) *Insolvency etc.*: a decree or order by a court having jurisdiction is entered under any applicable bankruptcy, insolvency, reorganisation or other similar law:

(i) for relief in respect of the Issuer, either Guarantor or any Principal Subsidiary in an involuntary case of winding up or bankruptcy proceeding under applicable law; or

(ii) adjudging the Issuer, either Guarantor or any Principal Subsidiary bankrupt or insolvent, or seeking reorganisation, winding up, arrangement, adjustment or composition of or in respect of the Issuer, either Guarantor or any Principal Subsidiary under applicable law; or

(iii) appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Issuer, either Guarantor or any Principal Subsidiary or of any substantial part of any of their properties, or ordering the winding up or liquidation of any of their affairs,

and any such decree or order remains unstayed and in effect for a period of 60 consecutive days; or

(g) *Voluntary arrangements*: the Issuer, either Guarantor or any Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Issuer, either Guarantor or any Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Issuer, either Guarantor or any Principal Subsidiary or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action.

In this Condition 8:

"**business day**" means a day in New York City and Hong Kong other than Saturday, Sunday or a day on which banking institutions in New York City or Hong Kong are authorised or obligated by law or executive order to remain closed.

The Trustee shall not be obliged to take any steps to ascertain whether an event of default has occurred or to monitor the occurrence and continuance of any event of default under this Condition 8, and shall not be liable to the Noteholders or any other person for not doing so.

9 PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest of the appropriate relevant date.

10 REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Hong Kong, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11 TRUSTEE AND AGENTS

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee, the Agents and their respective directors and officers are entitled to enter into business transactions with the Issuer, each Guarantor and any entity relating to the Issuer or each Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, each Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantors reserve the right (having notified the Trustee in writing) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer and the Guarantors shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12 MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantors (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Holders of not less than 90% in principal amount of Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders or by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Noteholders.

(b) Modification and waiver

The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions, the Notes or the Trust Deed which is:

(i) in the opinion of the Trustee, is a modification which will not be materially prejudicial to the interests of Noteholders (other than in respect of a Reserved Matter); or

(ii) is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification by the Issuer shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

(c) Substitution

The Trust Deed contains provisions under which either Guarantor may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled, including, a requirement that the Guarantee of the Notes by the remaining Guarantor is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

(d) Certificates and reports

The Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant, auditor, surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, the Guarantors, the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee will not be responsible to anyone for any liability occasioned by so acting.

(e) Directions from Noteholders

Notwithstanding anything to the contrary in these Conditions or the Trust Deed, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

13 ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, institute such proceedings against any of the Issuer or the Guarantors as it thinks fit to recover any amounts due in respect of the Notes which are unpaid or enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or either Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14 FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and issue price, the first payment of interest and, to the extent necessary, certain temporary securities law transfer restrictions) so as to form a single series with the Notes.

15 NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any individual certificates are issued and so long as the Global Note Certificate is held in its entirely on behalf of Euroclear and Clearstream, Luxembourg, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16 GOVERNING LAW AND JURISDICTION

(a) Governing law

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) Jurisdiction

Each of the Issuer and the Guarantors has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have non-exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings related to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Notes in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Notes (the "Conditions" or the "Terms and Conditions") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

The Notes will be represented by a Global Certificate which will be registered in the name of HSBC Nominees (Hong Kong) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay such principal sum to the Holder on 18 January 2032 or on such earlier date or dates as the same may become payable in accordance with the Conditions, and to pay interest on such principal sum in arrear on the dates and at the rate specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

The Global Certificate will become exchangeable in whole, but not in part, for individual note certificates ("**Individual Note Certificates**") if Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of certain of those provisions:

RECORD DATE

Notwithstanding Condition 6(e) (Record date), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

NOTICES

Notwithstanding Condition 15 (Notices), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or an Alternative Clearing System, notices to Holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

DETERMINATION OF ENTITLEMENT

The Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of the Global Certificate.

EXCHANGE RATES

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar). Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The central element in the arrangement which gave effect to this peg is that, by agreement between the Hong Kong Government and the three Hong Kong banks that issue Hong Kong dollar banknotes, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited, certificates of indebtedness (which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issue) are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of U.S.$1.00 to HK$7.80. When banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent amount of U.S. dollars at the fixed rate of exchange.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continued to be determined by the forces of supply and demand in the foreign exchange market. In light of the fixed rate for the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK$7.80 to U.S.$1.00 since 17 October 1983. In May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar.

The Hong Kong Government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Government will maintain the link within the range of HK$7.75 to HK$7.85 per U.S. dollar or at all, or will not in the future impose exchange controls. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the U.S. dollar and such currencies.

The following table sets forth the average, high, low and period-end exchange rates between the Hong Kong dollar and the U.S. dollar (in HK$ per U.S.$1.00) at the noon buying rate in New York City for cable transfers in foreign currencies for the periods indicated (the Noon Buying Rate).

	Year Ended 31 December			
	Hong Kong Dollars/U.S. Dollars Noon Buying Rate			
	Low	**Average[(1)]**	**High**	**Period End**
2017	7.7540	7.7926	7.8267	7.8128
2018	7.8043	7.8376	7.8499	7.8305
2019	7.7850	7.8335	7.8499	7.7894
2020	7.7498	7.7559	7.7951	7.7534
2021	7.7515	7.7727	7.8034	7.7996

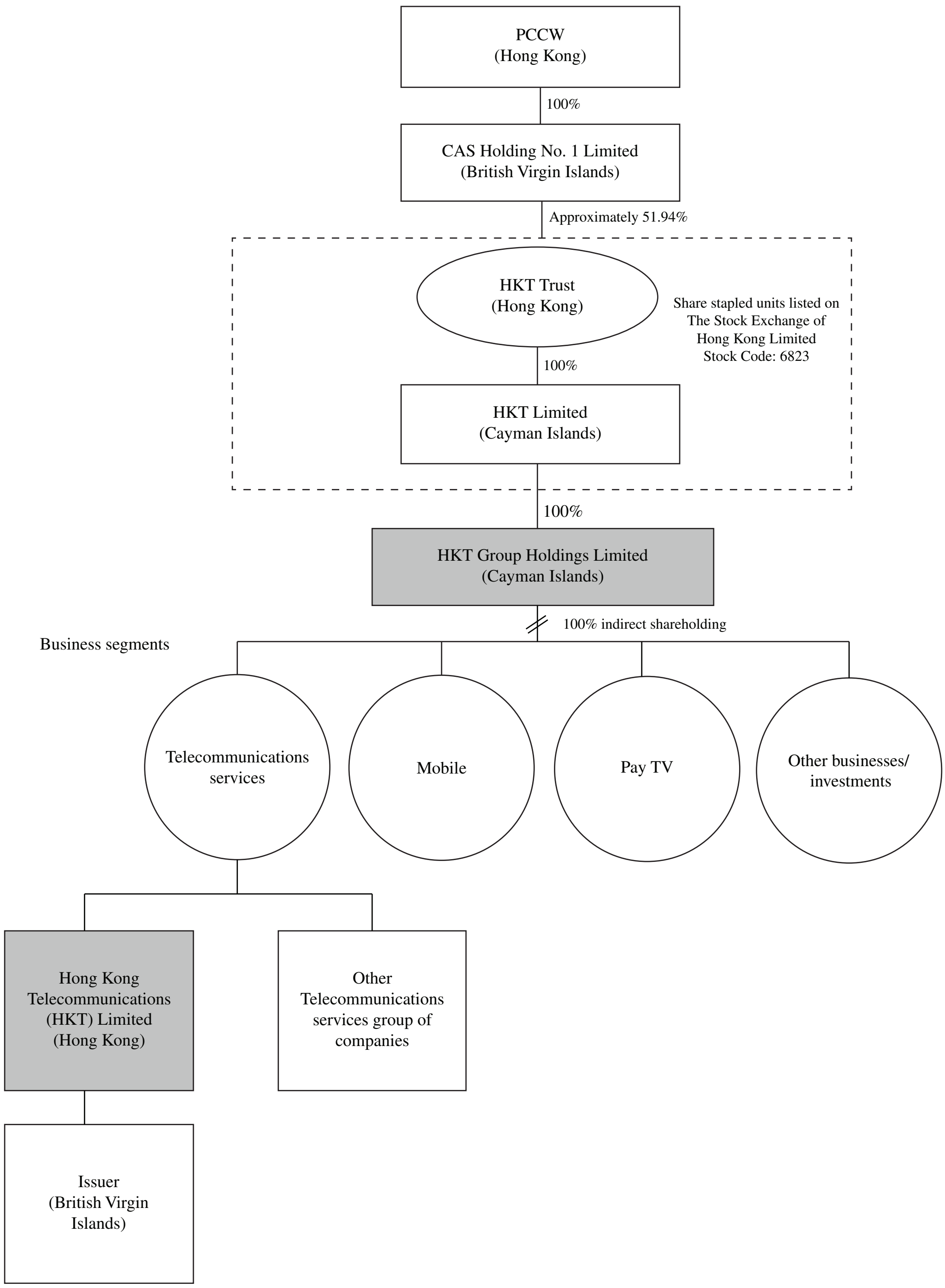
Source: www.federalreserve.gov

Note:

(1) Determined by averaging the rates on each business day during the relevant period.

DESCRIPTION OF THE ISSUER AND THE GUARANTORS

The chart below illustrates, in simplified form, the corporate structure of the Group:



Note:

Place of incorporation is mentioned in brackets.

THE ISSUER

The Issuer, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, was incorporated as a company with limited liability under the laws of the British Virgin Islands on 30 September 2019. Its registered office is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Issuer, whose primary purpose is to act as a financing subsidiary of the Group, will remain an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited as long as the Notes are outstanding and will advance the net proceeds of the Notes to other members of the Group. The Issuer has no material assets, and since its incorporation has not conducted and will not conduct any business, except relating to the offering, sale and issuance of indebtedness and the lending of the proceeds thereof to members of the Group and any other activities in connection therewith.

The directors of the Issuer are Hui Hon Hing, Susanna and Wong Hong Kit. The Issuer does not have any executive officers.

The Issuer is authorised to issue 50,000 ordinary shares of U.S.$1 par value each. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

The Issuer does not have any debt outstanding. The Issuer has no subsidiaries.

The Issuer has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under the laws of the British Virgin Islands. However, the Issuer is required to keep such accounts and records as the directors consider necessary or desirable in order to reflect the financial position of the Issuer.

THE GUARANTORS

HKTGH

HKTGH, a direct wholly-owned subsidiary of HKT, was incorporated as a company with limited liability under the laws of the Cayman Islands on 18 January 2008. Its registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The directors of HKTGH are Hui Hon Hing, Susanna and Wong Hong Kit.

The authorised share capital of HKTGH is U.S.$650,000,000 divided into 650,000,000 ordinary shares of U.S.$1 par value each, of which 636,000,025 shares are issued and outstanding. No part of the equity securities of HKTGH is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Hong Kong Telecommunications (HKT) Limited

Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of HKTGH, was incorporated as a company with limited liability under the laws of Hong Kong on 21 January 2008. Its registered office is located at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The directors of Hong Kong Telecommunications (HKT) Limited are Hui Hon Hing, Susanna and Wong Hong Kit.

The total number of shares of Hong Kong Telecommunications (HKT) Limited in issue is 2,488,200,001 ordinary shares. No part of the equity securities of Hong Kong Telecommunications (HKT) Limited is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

CAPITALISATION AND EXTERNAL INDEBTEDNESS

CAPITALISATION AND EXTERNAL INDEBTEDNESS OF THE GUARANTORS

The following table sets forth on an actual basis of the consolidated capitalisation and external indebtedness of HKTGH as at 31 December 2020, and as adjusted to give effect to (i) the Notes being offered; (ii) the net drawdown of bank loans and other borrowings of HK$2,190 million during the period from 1 January 2021 to 6 January 2022; and (iii) the increase in reserves of HK$304 million to include impact of the issue of shares at premium during the period from 1 January 2021 to 6 January 2022.

	As at 31 December 2020			
	Actual		As Adjusted	
	(HK$ million) (Audited)	(U.S.$ million)[(1)] (Unaudited)	(HK$ million) (Unaudited)	(U.S.$ million)[(1)] (Unaudited)
Short-term debt:				
Bank loans	1,552	200	461	59
	1,552	200	461	59
Long-term debt:				
Bank loans	19,249	2,483	22,134	2,855
3.75% Guaranteed Notes due 2023	3,824	493	3,824	493
The Zero Coupon Guaranteed Notes due 2030	2,314	298	2,314	298
3.625% Guaranteed Notes due 2025	3,850	497	3,850	497
1.65% Guaranteed Notes due 2027	1,878	242	1,878	242
3.00% Guaranteed Notes due 2026	5,789	747	5,789	747
3.25% Guaranteed Notes due 2029	3,815	492	3,815	492
Other borrowings	1,495	193	1,891	244
The Notes offered hereby[(3)]	–	–	5,040	650
	42,214	5,445	50,535	6,518
Total debts	43,766	5,645	50,996	6,577
Capital and reserves:				
Share capital	4,961	640	4,961	640
Reserves	27,839	3,590	28,143	3,630
Shareholder's equity	32,800	4,230	33,104	4,270
Total capitalisation and external indebtedness[(2)]	76,566	9,875	84,100	10,847

Notes:

(1) A rate of HK$7.7534 to U.S.$1 (as at 31 December 2020) was adopted for the conversion of H.K. dollar to U.S. dollar.

(2) Total capitalisation and external indebtedness represents shareholder's equity plus total debts.

(3) Notes to be issued represent the aggregate principal amount of the Notes, without taking into account, and before deduction of, management and subscription commissions and other estimated transaction expenses payable.

Save for the adjustment events above (together with amortisation of front-end expenses and issue discount in relation thereto), there has been no material change in the external indebtedness of HKTGH since 31 December 2020.

The following table sets forth on an actual basis of the consolidated capitalisation and external indebtedness of Hong Kong Telecommunications (HKT) Limited as at 31 December 2020, and as adjusted to give effect to (i) the Notes being offered; and (ii) the net drawdown of bank loans and other borrowings of HK$2,182 million during the period from 1 January 2021 to 6 January 2021.

	As at 31 December 2020			
	Actual		As Adjusted	
	(HK$ million) (Audited)	(U.S.$ million)[1] (Unaudited)	(HK$ million) (Unaudited)	(U.S.$ million)[1] (Unaudited)
Short-term debt:				
Bank loans	1,499	193	400	52
	1,499	193	400	52
Long-term debt:				
Bank loans	19,249	2,483	22,134	2,855
3.75% Guaranteed Notes due 2023	3,824	493	3,824	493
The Zero Coupon Guaranteed Notes due 2030	2,314	298	2,314	298
3.625% Guaranteed Notes due 2025	3,850	497	3,850	497
1.65% Guaranteed Notes due 2027	1,878	242	1,878	242
3.00% Guaranteed Notes due 2026	5,789	747	5,789	747
3.25% Guaranteed Notes due 2029	3,815	492	3,815	492
Other borrowings	1,495	193	1,891	244
The Notes offered hereby[3]	–	–	5,040	650
	42,214	5,445	50,535	6,518
Total debts	43,713	5,638	50,935	6,570
Capital and reserves:				
Share capital	9,945	1,283	9,945	1,283
Reserves	1,115	143	1,115	143
Shareholder's equity	11,060	1,426	11,060	1,426
Total capitalisation and external indebtedness[2]	54,773	7,064	61,995	7,996

Notes:

(1) A rate of HK$7.7534 to U.S.$1 (as at 31 December 2020) was adopted for the conversion of H.K. dollar to U.S. dollar.

(2) Total capitalisation and external indebtedness represents shareholder's equity plus total debts.

(3) Notes to be issued represent the aggregate principal amount of the Notes, without taking into account, and before deduction of, management and subscription commissions and other estimated transaction expenses payable.

Save for the adjustment events above (together with amortisation of front-end expenses and issue discount in relation thereto), there has been no material change in the external indebtedness of Hong Kong Telecommunications (HKT) Limited since 31 December 2020.

CAPITALISATION AND EXTERNAL INDEBTEDNESS OF THE ISSUER

As at the date of this Offering Circular, the Issuer had no outstanding debt and an authorised share capital of U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1 each, and issued and fully paid up share capital of U.S.$1 consisting of one share of U.S.$1.

BUSINESS OF THE GROUP

OVERVIEW

The share stapled units of the HKT Trust and HKT are listed on The Stock Exchange of Hong Kong Limited (stock code: 6823). HKT is the holding company of each of the Guarantors.

The Group is Hong Kong's premier telecommunications service provider and a leading innovator. The Group's fixed-line, broadband, mobile communication and media entertainment services offer a unique quadruple-play experience. The Group provides a wide range of services, including local telephony, local data and broadband, international telecommunications, mobile, media entertainment, enterprise solutions and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres, to the Hong Kong public and local and international businesses.

The Group is the first local mobile operator to launch a true 5G network in Hong Kong with differentiated value-added services. Backed by its substantial holding of 5G spectrum across all bands and a robust and extensive fibre backhaul infrastructure, the Group is committed to providing comprehensive 5G network coverage across the city.

The Group delivers end-to-end integrated solutions employing emerging technologies such as 5G, cloud computing, IoT and AI to accelerate the digital transformation of enterprises and contribute to Hong Kong's development into a smart city.

With its extensive and loyal customer base, the Group has also built a digital ecosystem integrating its loyalty programme, eCommerce, travel, insurance, FinTech and HealthTech services. The ecosystem deepens the Group's relationship with its customers thereby enhancing customer retention and engagement.

The Group had over 15,900 employees as at 30 June 2021, located in 47 countries and cities. Approximately 67% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the U.S..

RECENT DEVELOPMENTS

To increase synergies and bring about the creation of Hong Kong's sole genuine quadruple-play services provider, an enriched product offering, enhanced cross-selling of services within the Group and improved operating efficiencies, on 6 August 2020, HKT Interactive Media Holdings Limited, an indirect wholly-owned subsidiary of HKTGH, entered into a share purchase agreement with PCCW Interactive Media Holdings Limited, an indirect wholly-owned subsidiary of PCCW, in relation to the sale by PCCW Interactive Media Holdings Limited to HKT Interactive Media Holdings Limited of the entire issued share capital of PCCW Media for a consideration of U.S.$250 million (or HK$1,950 million based on an agreed exchange rate). The PCCW Media Group operates the "Now TV" business, which is the 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 transaction was completed on 30 September 2020. To ensure the continued and uninterrupted operations of PCCW Media (as part of the Group after the completion of the transaction) and the PCCW Group, on 30 September 2020, relevant members of the Group and the PCCW Group entered into a series of service agreements in relation to certain technical, support and marketing services.

BUSINESS OF THE GROUP

Telecommunications business

The telecommunications business of the Group comprises four business segments: telecommunications services, mobile, pay TV and other businesses, as further described below.

Telecommunications services

The telecommunications services segment provides four core areas of telecommunications products and services, being local telephony services, local data services, international telecommunications services and other services.

- ***Local telephony services***

  The Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. The Group's fixed-line service provides local and international call services for its residential and business users. eye Smart Communications Service ("**eye**") is a comprehensive service including audio and video call functionality and access to more than 100 educational and infotainment applications which are suitable for all family members. The Group has a leadership position in the fixed-line telecommunications market in Hong Kong. The Group's local telephony services had approximately 2.486 million fixed lines in service as at 30 June 2021.

- ***Local data services***

  The Group's local data and broadband services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential broadband Internet services through the Group's multi-brand service approach of "HKT Premier", "NETVIGATOR" and "LiKE100". The broadband services provide users with a choice of Internet access speeds up to 10 Gbps and additional value-added services such as Home Wi-Fi and Smart Living to meet the Group's customers' smart lifestyle needs. As at July 2021, the Group's FTTH service is available for delivery within four days of receiving a service order to approximately 90% of homes. There were approximately 1.634 million broadband access lines as at 30 June 2021. Of these broadband access lines, there were approximately 920,000 FTTH access lines. In addition, the Group's Home Wi-Fi solutions continued to grow to a total of approximately 321,000 customers, representing approximately 22% of the Group's total consumer broadband base.

  Smart Living is an innovative service offered by the Group based on its customised home broadband network and automation systems enabling users to control home settings such as lighting, curtains, home entertainment products and home surveillance systems, etc. through the Group's eye device at home or via a Smartphone or a tablet when users are on the move. The Group provides one-stop service including on-site professional advice on layout and recommendations on equipment, overall set up and after-sales service, and partners with property developers to embed Smart Living solutions in new residential properties.

  HKT education offers stable and advanced one-stop eLearning solutions facilitated by reliable provision of high-speed broadband to schools, as well as cloud storage and Wi-Fi technology, covering all needs before, during and after class. HKT education focuses on pedagogy and content, as well as the development of technology platforms, providing learning and teaching materials in accordance with curriculum guidelines from the Education Bureau of Hong Kong for primary and junior secondary schools.

Apart from a broad portfolio of data connectivity services, the Group also offers extensive ICT products and solutions to enterprise customers including cross-border connectivity, network facility management, cloud-based applications and emerging technologies such as cloud computing, IoT and AI to accelerate their digital transformation.

- ***International telecommunications services***

  The Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fibre and satellite transmission solutions, voice, data and video services and managed network services and software-defined transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Group's network currently provides connectivity in more than 3,000 cities and 160 countries and serves enterprises and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia.

- ***Other services***

  Other services mainly comprise the sale of network equipment and customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), provision of technical and maintenance subcontracting services and contact centre services ("**Teleservices**"). In addition, the Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

  Further, the Group launched DrGo in July 2020 – an innovative HealthTech platform in Hong Kong which provides convenient telemedicine services. DrGo is an app-based platform connecting users in Hong Kong with doctors who provide medical consultation and advice via video consultation. Prescribed medicine will be delivered to the patient's designated address. DrGo had approximately 218,000 registered users as of July 2021.

Mobile

The Group currently offers 2G, 3G, 4G and 5G mobile services marketed under the "1O1O", "csl" and "SUN Mobile" brands and Wi-Fi services marketed under the "csl Wi-Fi" brand. In late 2017, the network was upgraded to support 4x4 MIMO (Multi-input, Multi-output) and Four Component Carrier (4CC) Aggregation technology to introduce Hong Kong's first 1 Gbps IP-based radio access mobile network. As at 30 June 2021, the Group had approximately 3.263 million post-paid customers. The Group provides support for a broad spectrum of Smartphones and has implemented tariff plans to drive continued growth of its mobile service customer base and hence mobile data revenue. The Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

On 1 April 2020, the Group became the first local mobile operator to launch a true 5G network in Hong Kong with differentiated value-added services. The Group's 5G network is backed by its substantial holding of 5G spectrum across all bands and a robust and extensive fibre backhaul infrastructure. The Group has introduced a variety of content and applications that bring out the best in 5G for consumers.

These include exclusive Korean VR entertainment content in 4K, 4K soccer broadcast, exclusive online games, 24-bit music, as well as an AR lens application through which customers may spot and obtain special offers from participating shops and restaurants. There were approximately 528,000 5G customers by the end of July 2021, representing 16% of the entire post-paid customer base.

Pay TV

The Group operates the Now TV business, which is the 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. Now TV's digital service, Now E, is a subscription OTT service offering premium, exclusive dramas, movies and sports content to meet the needs of millennial viewers. Now E has continued to penetrate into non-linear-TV users via its enhanced user interface and self-subscription model. In November 2020, Now TV augmented its content lineup with Now True for documentary lovers. The Group's self-curated and locally relevant content, value-enhancing features such as concurrent access for multiple users in the household, and the enhanced Home Screen which offers different family members their own personalised viewing experience, is designed to deepen engagement. In March 2021, Now TV launched Now Studio – a self-curated on-demand content library featuring the best in drama and entertainment from independent and Hollywood studios around the world. As at 30 June 2021, Now TV had an installed base of approximately 1.352 million supported by the growing adoption of the Now E service.

Other businesses

The other businesses of the Group primarily comprise new business areas such as The Club and HKT Financial Services, and corporate support functions. Tap & Go is an innovative and secure mobile payment service that is available to mobile users. It is Hong Kong's first mobile wallet to incorporate both MasterCard® and UnionPay card schemes to enable secure, reliable and instant mobile payment anywhere in the world and online. Tap & Go had over 3.0 million accounts in service as at 30 June 2021. The Club is a loyalty and rewards programme which offers members numerous benefits and privileges on its online platform, including merchandise items and events. Club Travel offers airline and hotel booking services since August 2018. As at 30 June 2021, The Club had approximately 3.29 million members.

Other investments in associates and joint ventures

Smart Charge is a joint venture between the Group and the CLP Holdings Limited group, and offers total solution for the charging of electric vehicles in Hong Kong. The one-stop service includes advice on site layout, plus equipment and installation recommendations, as well as after-sales service, to save customers time and hassle.

HKT, PCCW, Standard Chartered Bank (Hong Kong) Limited and Ctrip Financial Management (Hong Kong) Co., Limited formed Mox Bank Limited (formerly known as SC Digital Solutions Limited), a joint venture which was granted a virtual bank licence by the Hong Kong Monetary Authority in March 2019 and launched in September 2020. The joint venture provides retail banking services entirely digitally over its application, integrating banking into service offerings to customer bases of the Group and the Group's partners.

COMPETITIVE STRENGTHS

The Group believes that its competitive strengths are as follows:

The leading telecommunications service provider in Hong Kong with a stable business that generates strong recurring cash flow

The Group is a leading integrated telecommunications service provider in Hong Kong with extensive network coverage. The Group's telecommunications network is the most extensive fibre-based digital network in Hong Kong by total number of exchange lines. As at 30 June 2021, the Group had in service approximately 2.486 million exchange lines and approximately 1.634 million broadband access lines, including approximately 920,000 FTTH access lines.

This leading position is attributed to the Group's long and established track record for high-quality customer service, extensive coverage and advanced technology offerings to customers in Hong Kong. As at July 2021, the Group's FTTH service is available for delivery within four days of receiving a service order to approximately 90% of homes. Such services continue to attract new customers and existing customers for service upgrade. The growing fibre customer base of the Group continues to create future upgrade opportunities to higher speed, higher price service plans and digital services.

In addition, the existing businesses with an extensive network of approximately 2.486 million exchange lines and approximately 1.634 million broadband access lines generate a very stable cash flow stream for the Group, which is reflected in its stable revenue and EBITDA margins.

With its leading position in Hong Kong, the Group believes that it is well-positioned to leverage its scale and deploy new services across Hong Kong quickly, giving customers access to a wide selection of telecommunications and broadband service offerings.

Attractive growth prospects for the Group's mobile and broadband services and growth potential driven by HKT Enterprise Solutions and complementary new business lines

The Group believes that it has long-term growth prospects given the strong growth and the continuous development expected of the mobile telecommunications and broadband market. Consumers today are not only seeking basic connectivity at home or the office for e-mail and Internet browsing but are also seeking faster Internet access speeds and uninterrupted mobile data connectivity. The shift in Internet usage is brought about by the increased data usage requirements of Internet based services such as music or video streaming as well as websites and online applications that deliver rich high-definition content. Increasing affordability and availability of handheld portable devices, such as Smartphones and tablets and growing consumer confidence in accessing online services via mobile devices have also led to an increase in mobile subscribers and data usage, and increased data traffic being carried over the Group's network.

The Group believes that it is well positioned to capture the strong growth in the mobile and broadband data markets by providing increasingly high-speed and stable mobile connectivity to meet customer needs. The Group currently offers an extensive selection of speeds and mobility options to its customers. The Group is Hong Kong's largest broadband service provider with territory-wide fibre network covering approximately 90% of homes as at July 2021. The Group meets customers' different needs through the HKT Premier, NETVIGATOR and LiKE100 brands. The Group's fixed broadband service, NETVIGATOR, offers the most extensive FTTH coverage and a broad spectrum of services with different functionalities and speeds up to 10 Gbps to meet the varying needs in a home. As at 30 June 2021, there were approximately 920,000 FTTH access lines which represented a net increase of approximately 57,000 or 7% growth from the previous year. As smart networking and smart home features become increasingly popular, the Group is continuously elevating its service level to meet customers' evolving needs at home for entertainment, gaming, security, health and wellness, and other smart living installations. For the more discerning customers, HKT Premier offers a first-class experience with personalised customer care and support, and tailor-made one-stop solutions from dedicated relationship account managers. For the value-seeking segment, LiKE100 offers high-speed broadband services at affordable price levels.

The Group's mobile service operates through three brands – 1O1O, csl and SUN Mobile – to cater for different customer segments from premium, business, travellers, gamers to families. 1O1O provides a mobile lifestyle experience to meet the needs of discerning customers requiring service excellence. csl provides mobile service that enables customers to enjoy unlimited voice calls, value-added services and Smartphone workshops. SUN Mobile offers mobile voice and data services at affordable prices.

The Group continues to deepen its engagement with mobile customers by offering attractive and affordable value-added services. The Group's roaming and travel passes, data plans for the Greater China area, Now E one-stop media entertainment platform, handset protection service, etc. have been well received by customers.

Emerging technologies like AI, IoT, big data analytics, AR, cloud computing and robotics are bringing dramatic changes to the market. Commercial enterprises and public organisations are cognisant of the need to accelerate digital transformation to achieve cost savings, improve productivity and understand customers better. Given the Group's long-standing relationship with corporate customers, as well as its leading fixed and mobile networks, carrier-grade cloud platform and solid solution ecosystem including partners, the Group is ideally positioned to serve customers' needs with versatility and increased speed-to-market. The arrival of 5G is expected to create new business opportunities as its key characteristics – ultra-high speed, ultra-low latency and massive connectivity – making it a super enabler of the emerging technologies. The adoption of these technologies, particularly in sectors such as medical, property, construction, transport, logistics and retail, will generate additional growth momentum in the 5G arena.

Going beyond connectivity services, the Group is deploying the latest technologies and digital solutions to assist enterprises in transforming their businesses. Powered by its fixed and mobile networks, the Group's end-to-end integrated Enterprise Solutions enable companies to gain business insights and enhance operational efficiency.

In November 2018, the Group applied IoT technologies in a collaboration with a large shopping mall in Hong Kong to present Hong Kong's first e-parking service for the mall. Visitors can remotely locate a parking space, reserve it and pay for the parking fee conveniently via an application.

The Group also took part in the Smart Airport initiatives of the Airport Authority of Hong Kong by providing two critical network infrastructure projects: (i) a private LTE radio network to support critical communication applications; and (ii) a cable management system involving cable route discovery and the design and implementation of the new cable management system at the airport.

In May 2019, the Group was awarded significant contracts by the Transport Department of the Government of Hong Kong (the "**Transport Department**") for the design, deployment and management of the new generation of the parking meter system in Hong Kong. The system is a key smart mobility initiative of the Hong Kong Government's Smart City Blueprint, aiming to provide a smart on-street parking experience for motorists and to enhance the effectiveness of city management. Through a mobile application, motorists can obtain real-time information regarding parking vacancy, pay parking fees with multiple payment means and top up remotely and easily. It is anticipated that installation of a total of 12,000 new meters will be completed by the first half of 2022.

The Group is delivering Hong Kong's largest IoT-powered PropTech deployment for a global real estate services firm. More than 4,000 IoT sensors will be installed at over 200 properties for data capture, big data analysis and process re-engineering and automation to optimise operations and enhance occupant experiences.

In September 2020, the Group also won a second smart city project with the Transport Department. This project encompasses procurement cum management, operation and maintenance of a real-time arrival information system service for green minibuses. Once the system is established, passengers are able to access the real-time arrival information of the next three incoming green minibuses through the Transport Department's mobile application "HKeMobility" to facilitate the users of the application to plan for the most appropriate travel arrangements.

In a landmark development supporting digital transformation in the healthcare sector, the Group launched DrGo in July 2020. Telemedicine serves a growing need in the community as it offers ease and convenience, and is particularly helpful at a time like the COVID-19 pandemic.

In recent years, the Group has sown seeds in a number of new businesses to broaden its revenue streams. The Club is the Group's loyalty programme, and one of the largest of its kind in Hong Kong with approximately 3.29 million members as at 30 June 2021. It offers members numerous benefits and privileges on its online platform, including merchandise items and events. Not only does it help retain customers, but it also provides the Group with insights to personalise offerings to its members. This unique asset of the Group is evolving to become an ecosystem of its own and has continuously amalgamated merchant partners to enrich its offerings. As a service extension to members, The Club commenced an airline and hotel booking and tour service for consumer and corporate customers under the brand Club Travel. An online shopping platform, Club Shopping, was launched in October 2020, unifying the e-businesses of Club Like, 1O1O, csl, NETVIGATOR and HKT Smart Living. This unified online shopping platform enhances customer experience by centralising all products offered by the Group onto one platform.

As to the Group's mobile payment service, Tap & Go is Hong Kong's first mobile wallet to incorporate both MasterCard® and UnionPay card schemes to enable secure, reliable and instant mobile payment anywhere in the world and online. As at 30 June 2021, there were over 3.0 million Tap & Go accounts in service, an increase of 14% from approximately 2.6 million in the previous year.

In addition, the Group offers local merchants a variety of mobile payment solutions under the HKT Merchant Services brand. HKT Merchant Services provides merchants with one-stop retail and payment solutions which currently comprise in-app, online and QR code payment options, as well as a Smart POS facility. All these payment solutions help merchants to streamline operations and facilitate digital transformation.

As one of the four Stored Value Facility ("**SVF**") operators chosen by the Government of Hong Kong in April 2021 to deliver consumption vouchers to the public to help relieve the economy, Tap & Go has introduced exciting rewards for shoppers and fee deductions and waivers for merchants. The service has attracted a large number of new users since April 2021, lifting the total number of accounts to approximately 3.5 million as at July 2021, while merchants' registrations for Smart POS have also soared.

Comprehensive delivery platforms

The Group offers services that can be delivered and accessed through four complementary delivery platforms: fixed-line, broadband, mobile and IPTV. The Group believes that its quadruple-play delivery platforms help increase customer stickiness and effectively enable the Group to retain its subscriber base and be highly resilient to competition. The Group believes that it is also less susceptible to pricing pressures across its businesses due to its quadruple-play delivery platforms.

Strong brand recognition and a reputation for quality and reliability

The Group believes that its products and services have a reputation for high-quality and reliability and a high level of brand recognition among its customers. The Group's extensive set of high-quality services, its strong brands and customer affinity across its telecommunications business allow the Group to achieve continued growth. The Group's investment in advanced network services and products have supported Hong Kong's development as one of the leading telecommunications centres in Asia. Quality and reliability are especially important to multinational corporations, banks and other corporate customers needing the Group's services to support their critical operations. By harnessing the power of 5G and emerging technologies, the Group has been helping enterprises across industries manage their transformation.

Extensive telecommunications network and infrastructure

The Group's extensive telecommunications network and associated infrastructure provide a robust platform from which the Group delivers its comprehensive portfolio of products and services to customers. Based on the demands of its customers, the Group also continually invests in new or emerging technologies and in upgrading its existing technologies to differentiate its services and product offerings from those of its competitors. This allows the Group to provide high-quality and extensive network coverage as well as introduce innovative products in its core markets in Hong Kong.

The Group provides broadband access service at multiple speeds up to 10 Gbps. The Group has the most extensive fibre network in Hong Kong with fibre infrastructure installed and ready for service within four days (FTTH) accounting for approximately 90% of homes in Hong Kong as at July 2021. All premises that are within the Group's FTTH coverage will have the opportunity to enjoy the ultra-speed 10 Gbps passive optical network ("**PON**") because of the investments that the Group has made in the past in building a dense, fibre-rich network to handle both technological evolutions and high levels of market demands. High-speed fibre connection and technology advancement are reshaping the lifestyle of Hong Kong people. Services such as the Smart Living service of the Group uses the latest technologies to enhance the quality of daily life by providing home automation and networking services as well as end-to-end smart home creation solutions tailor-made by technical consultants and interior designers.

The Group's superior mobile network is premised currently on its wide network coverage, abundant spectrum and extensive fibre backhaul. The unparalleled fibre asset in Hong Kong enables the Group to provide high-quality and super-fast fixed and mobile broadband services to customers of the Group. With the acquisition of CSL Holdings in May 2014 and the integration of the Group's two mobile networks to release the synergies due to the acquisition, customers' mobile experience is enhanced. Integration of the radio cell sites was completed in December 2015, while the integration of the core mobile network was completed in 2016, enabling the Group to offer even more advanced services and roaming coverage. As at 30 June 2021, the Group's network was optimised to over 3,000 cell sites with enhanced coverage.

The Group's telecommunications network currently includes 2G, 3G, 4G and 5G mobile networks. After the acquisition of CSL Holdings, the Group has combined its existing network with that of the CSL Group and now operates a wide range of mobile spectrum in Hong Kong to meet the data needs of its customers. The combined networks of the Group and the CSL Group enable customers to enjoy the best possible coverage both indoors and outdoors, allowing customers to access the Internet at any time and also to enjoy attractive content on their mobile devices made available through the Group's quadruple-play delivery platforms. The Group has also complemented the broadband services by utilising 5G wireless-to-the-home ("**WTTH**") technology, lifting the integrated high-speed broadband access to over 97% of homes in Hong Kong as of July 2021.

In June 2018, the Group successfully conducted trials for the commercial deployment of 5G mobile technology, and in November 2018, the Group was contracted to build Hong Kong's first 5G all-fibre shared digital indoor system on a new Mass Transit Railway ("**MTR**") line (Shatin to Central Link). In March 2019, the Group completed the renewal of 60 MHz of its original holding of spectrum in the 900 MHz and 1800 MHz bands (whose assignment period expired in 2021) which it had retained by exercising its "right of first refusal" in September 2018 and participating in the Hong Kong Government spectrum auction in December 2018.

In April 2019, the Government of Hong Kong allocated to the Group 400 MHz of spectrum on the 28 GHz frequency band for 5G use. One month later, the Group became the first Hong Kong mobile operator to conduct 5G application demo on the 28 GHz band. The demo achieved an end-to-end latency below 10 milliseconds and peak downlink speed of 2.6 Gbps in use cases including 4K camera live streaming, 4K video streaming and file download. Although the 28 GHz spectrum does not provide extensive coverage, it can provide ultra high-speed and massive connectivity within the coverage area such as hotspots at busy districts, a large compound, campus or exhibition arena. Spectrum in the 3.3GHz, 3.5GHz and 4.9 GHz bands were auctioned in October/November 2019 with the Group successfully bidding for 30MHz, 50 MHz and 40 MHz of the respective bands. On 1 April 2020, the Group became the first local mobile operator in Hong Kong to launch a true 5G network in Hong Kong with differentiated value-added services. Currently, the Group's 5G network provides comprehensive outdoor coverage and extensive indoor coverage in Hong Kong. Commuters on the MTR can now access the Group's 5G services along all lines including the newly completed Tuen Ma Line. As of August 2021, the Group is the only operator covering the entire MTR system with the deployment of dedicated 5G spectrum. The Group has also extended the coverage to some of the most popular hiking trails and remote scenic spots to cater to the increased need for connectivity. The Group's 5G subscriptions surpassed the 500,000 mark as of the end of July 2021, representing 16% of the Group's entire post-paid customer base.

Following a spectrum auction held in October 2021, the CA announced on 26 November 2021 that Hong Kong Telecommunications (HKT) Limited was the successful bidder for 20 MHz of spectrum in the 700 MHz band and 50 MHz of spectrum in the 2.5/2.6 GHz band. Assignment of the 700 MHz band (for 15 years) is expected to take place in 2022 while the new assignment term for the 2.5/2.6 GHz band (also for 15 years) will commence on 31 March 2024. In the meantime, Hong Kong Telecommunications (HKT) Limited has provided certain confirmations to the CA and letters of credit to guarantee future payment of the required spectrum utilisation fees for use of the spectrum the CA is due to assign to it in the specified frequency bands.

The Group's local network is extended by PCCW Global, which connects more than 3,000 cities and 160 countries. PCCW Global has considerable experience in designing, building and maintaining submarine cables around the world. The Group maintains extensive coverage in the Intra-Asia region with systems such as Reach North Asia loop (connecting Hong Kong, Korea, Japan and Taiwan) and the Intra Asia Cable System (connecting Hong Kong, Singapore and Japan with additional connections to the Philippines and Vietnam). PCCW Global has also added inventory for key routes such as JUPITER (connecting Japan with the U.S., which became operational in 2020), in addition to Faster (connecting Taiwan, Japan and West Coast of the U.S., which is currently in operation). Along the Europe-Asia route, PCCW Global is a founding member of AAE-1, which connects Southeast Asia to Europe through the Middle East and Africa. Another system, PEACE (Pakistan & East Africa Connecting Europe) cable, is expected to be completed in the first quarter of 2022, which will offer the shortest routes from China to Europe and Africa to address growing data demands in the "Belt and Road" countries.

The Group's network enables it to continually deliver the highest-quality digital experience for both its consumer and enterprise customers, locally and globally, and positions it for consolidating its leadership in innovation in the 5G era, which requires a highly capillary network infrastructure.

Experienced management team

The Group's management team has a track record in both the development and delivery of telecommunications services, as well as in the execution of its business strategies. The management team has successfully maintained the Group's market share and expanded its offering of products and services in one of Asia's most deregulated telecommunications markets. The Group believes that the synergies created by the management experience and technical expertise of the management team and the Group's advanced technology should enable the Group to move quickly to identify, adopt, acquire, develop and exploit emerging technologies. The Group also believes that the management and operational expertise of the management team will make the Group a preferred partner for other telecommunications companies in Asia and elsewhere.

KEY STRATEGIES

The Group offers a unique integrated quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access, mobile and IPTV platforms. The Group's strategy for generating and preserving unitholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity, its mobile network coverage and speed continuously improve and its IPTV platform continues to introduce new content to satisfy a full spectrum of viewing tastes and preferences – and overall to invest in its people to continuously improve the quality of service that the Group provides to its customers. The Group generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications, media entertainment and ancillary businesses.

The Group believes that the outlook of the telecommunications and media entertainment industries in Hong Kong is positive and therefore will provide the Group with the opportunity to increase the profitability of its business through a combination of the following strategies:

Increase revenue for the Group's services

The Group intends to capitalise on its leading telecommunications network infrastructure and unique combination of "quadruple-play" delivery platforms to provide customers a wide, appealing and innovative range of services, to increase its ARPU and market shares for broadband, fixed-line, mobile and media entertainment services as well as to increase efficiencies in its overall field and operations workforce. The Group intends to enhance sales and marketing efforts to retain its subscriber base, promote service plan upgrades and sign up new customers. The Group also intends to provide customers with attractive, high-quality, customisable packages and offerings to increase overall demand.

The Group has successfully transformed from a pure telecommunications service provider to one which provides many forms of content, applications and digital services.

NETVIGATOR offers customers a broad spectrum of services with different functionalities and speeds, including a unique service which enables a household to have the benefit of four individual circuits of 1 Gbps speed each via a single fibre. As at 30 June 2021, approximately 321,000 households in Hong Kong, representing approximately 22% of the Group's total consumer broadband base, now enjoy the Group's Home Wi-Fi solutions as a service enhancement to the Group's high-speed broadband connectivity. Consumers today not only seek basic Internet connectivity, but also seek higher access speeds and uninterrupted mobile data connectivity to enjoy a wide range of Internet-based services. The proliferation of the use of Internet-based services through handheld portable devices has also led to an increase in mobile subscribers and data usage, and increased data traffic carried over the Group's network.

The growing need for online study and remote working underscores the importance of a resilient, high-quality fibre network. The Group recorded a surge in connectivity and bandwidth demand from both households and business customers in the first half of 2020, reflecting the Group's leading position in the market. In particular, the need for high-speed broadband and Home Wi-Fi solutions helped drive NETVIGATOR residential customer acquisitions and upgrades. While many businesses, especially small and medium-sized enterprises ("**SME**") in the hospitality sector, have been severely negatively impacted by the COVID-19 pandemic, including experiencing financial difficulties, and in some cases, have ceased operations, the Group recorded an overall net gain in broadband customers in the first half of 2020. During 2020, overall Internet traffic on the Group's fixed network rose by 65% during daytime and 49% at night. While the majority of workplaces and schools have reopened in the first half of 2021, many people have grown accustomed to accessing shops, education, work and play from home under the new normal. The Group's fixed-broadband traffic continued to rise in the first half of 2021, reflecting customers' reliance on the Group's dependable network and appreciation of the Group's quality and technical services. These factors supported net gains in access lines across the Group's HKT Premier, NETVIGATOR, and LiKE100 services, which target different customer segments.

As such, the Group will seek to continue to capture the strong growth in the mobile and broadband data markets by providing increasingly high-speed and stable mobile connectivity to meet customer needs.

For enterprises, the Group is a trusted partner in terms of not only connectivity services, but also the deployment of technologies and digital solutions to enhance operational efficiency, gain business insights and enhance product delivery and customer service. With the deployment of the latest technologies such as AI, IoT, data analytics and cloud services, the Group will continue to assist customers in their digital transformation journey.

The Group has been working to expand its cooperation with overseas operators to enhance its connectivity capability and actively expanded its MPLS and Ethernet networks with interconnection agreements and other forms of cooperation with partners in other parts of the world including the rapidly growing Middle East market. The Group is implementing the next generation of software-defined network capabilities, enabling customers to have a web and application programme interface ("**API**") based self-service window for addressing their data transport, process and storage needs through a much more automated process. PCCW Global's Console Connect, introduced in May 2018, is the industry's first software defined interconnect platform powered by a leading Tier 1 global IP network available in more than 3,000 cities and 160 countries, providing enterprises and service providers with easy on-demand access to cloud-based, business critical applications. New collaborations were forged with services and solutions providers in the first half of 2021 and the Console Connect platform now provides direct access to more than 450 data centres in over 50 countries.

Broaden the range of products and services offered

The Group plans to continue to innovate and broaden its existing high-quality product offering by focusing on data-related products and value-added services with the objective of increasing customer loyalty and stickiness and increasing ARPU. This includes:

- expanding the coverage of its FTTH service supporting speeds up to 10 Gbps across Hong Kong, thus providing customers with multiple technologies and speeds to meet their broadband access needs as well as to facilitate the migration of standard and high-definition television to 4K/8K definition, 3D and VR/AR immersive experience;

- delivering content to various devices such as tablets and Smartphones, continuing to develop client applications for user interface which provide enhanced navigation, search and recommendation functionality, enhancing functionality of devices such as tablets to be more useful and complementary to the television viewing experience, developing systems to streamline the provisioning, delivery and management of the multimedia services to better serve customers with multi-devices as well as to enhance the operations and management of the services provided by the Group;

- continuing to embrace new innovations in the Group's unique quadruple-play propositions, which are achieving synergy through cross-selling;

- expanding home networking and digital lifestyle for its customers and continue to strengthen applications available via Smart Living;

- enriching FinTech offerings by expanding the range of financial services of the Group;

- continuing to enhance mobile payment experience for customers and merchants, such as introducing HKT Flexi, an application-based micro lending service in May 2020, in addition to Tap & Go mobile payment and Smart POS merchant solutions. The Group is also a joint venture partner in Mox Bank Limited, one of the first virtual banks licensed to operate in Hong Kong. Mox Bank Limited represents the next generation of banking, a cloud-based bank with secure and resilient infrastructure and services, as well as rapid and cost-efficient development cycles;

- continuing to boost audience reach and advertising sales of Now TV with new content in the genres of Western dramas, kids and family entertainment, Asian classics and lifestyle and travel, in addition to sports content;

- continuing to expand the service scope of the Group's first major venture in HealthTech, the telemedicine platform DrGo which integrates different aspects of healthcare services including hospitals, doctors, patients and insurance companies. The Group is capable of enabling the technologies of 5G, IoT and AI for big data analytics, which will enhance medical research, disease prevention and diagnosis, and will therefore be of significant benefit to the community. For instance, the high bandwidth and low latency of 5G enables an immersive experience with 4K camera video and radiology imaging for real-time diagnostics at remote locations. The scope of services of DrGo also encompasses an innovative hybrid hypertension care programme for the management of chronic diseases and specialist consultations for mental health issues, both of which require ongoing professional follow-up and support. An online DrGo Health Store was launched in June 2021, offering products and services that range from allergy tests to zoster vaccinations; and

- enhancing customer retention and engagement through the offering of benefits and privileges of The Club, and gaining insights to personalise offerings to its members. This unique asset of the Group is evolving to become an ecosystem of its own and has continuously amalgamated merchant partners to enrich the Group's offerings. As a service extension to members, The Club commenced an airline and hotel booking and tour service for consumer and corporate customers under the brand Club Travel. An online shopping platform, Club Shopping, was also launched, such that members and non-members can make purchases with Clubpoints and in cash. In June 2021, The Club made a move in the digital economy with the launch of Club Insurance – a direct-to-consumer online insurance platform – in partnership with a leading insurance provider. Customers will find a range of protection products under categories such as gadgets and appliances, health, and travel. In support of this, a new Club Wellbeing app has also been launched to reward members for leading a more active lifestyle.

Maintain the Group's leading network infrastructure

The Group will continue to invest and to add value to its broad array of connectivity services, to improve the delivery of its own content and applications and those of its partners and to maintain its leading network infrastructure to provide customers with extensive coverage and a broad range of high-quality telecommunications services. The Group will also continue to adopt a demand-generated investment strategy to develop its networks and systems so as to maintain its premium brand positioning and to maintain pricing. The Group intends to continue to:

- fully utilise its state-of-the-art IP-based network infrastructure;
- expand higher-speed broadband services to more homes and businesses through the rollout of the Group's optical network and existing global backbone;
- provide multiple access technologies to meet the lifestyle of users;
- strengthen the Group's digital channels and deploy data analytics to enhance the offering of personalised products and services to customers as consumer behaviours continue to evolve;
- leverage on its large amount of radio spectrum to build a technically superior network and derive a competitive edge in the market – particularly with support from the Group's extensive optical-fibre backhaul and Wi-Fi network;
- invest in security, performance monitoring and preventative maintenance management network with an aim to achieve world class key performance indicators;
- support the continued growth of 5G mobile technology in Hong Kong as an enabler of smart city initiatives, in anticipation of which the Group has already embarked on a number of related projects on smart energy, smart parking meters, smart kiosk, smart recycling and smart mobility;
- support the adoption of 5G by consumers and enterprises as the 5G handset ecosystem continues to evolve; and
- drive digital transformation with emerging technologies for different industries, with the Group's track record of implementing large-scale government and commercial ICT projects.

Focus on cost control and efficiency measures

The Group has benefited from significant cost savings and improved operational efficiency following the integration of the network of the CSL Group. The Group will continue to focus on reducing costs, optimising efficiency and increasing productivity across its businesses through automation and digitalisation of business processes. For example, the Group will continue to look for areas where cost efficiencies can be gained, such as stringent cost control measures on publicity and promotion as well as travel and entertainment expenses.

BUSINESS SEGMENTS

The segment revenue and EBITDA for each of the Group's business segments for the six months ended 30 June 2020 and 2021 and the years ended 31 December 2019 and 2020 were as follows:

Segments Revenue and EBITDA

	For the six months ended 30 June			For the year ended 31 December	
	2020	2021	better/ (worse)	2019	2020
	(HK$ million)			(HK$ million)	
Revenue					
Telecommunications Services ("**TSS**")	10,386	10,243	(1)%	21,953	22,357
Mobile	4,543	5,108	12%	11,814	10,366
Pay TV	–	1,231	N/A	–	647
Other Businesses	155	408	163%	236	241
Eliminations	(478)	(1,347)	(182)%	(900)	(1,222)
Total	14,606	15,643	7%	33,103	32,389
Add/less: if any	–	–	–	–	–
HKTGH Consolidated	14,606	15,643	7%	33,103	32,389
EBITDA					
TSS	3,801	3,824	1%	8,360	8,412
Mobile	2,050	2,072	1%	5,068	4,747
Pay TV	–	212	N/A	–	174
Other Businesses	(305)	(393)	(29)%	(611)	(806)
	5,546	5,715	3%	12,817	12,527
Add: Administration costs for HKT	4	4	–	6	11
HKTGH Consolidated	5,550	5,719	3%	12,823	12,538

Telecommunications Services

	For the six months ended 30 June			For the year ended 31 December	
	2020	2021	Better/ (worse)	2019	2020
	(HK$ million)			(HK$ million)	
TSS Revenue					
Local TSS Services	6,622	6,926	5%	14,607	14,713
– Local Data Services	3,696	3,877	5%	7,787	8,217
– Local Telephony Services	1,532	1,449	(5)%	3,260	3,084
– Other Services	1,394	1,600	15%	3,560	3,412
International Telecommunications Services	3,764	3,317	(12)%	7,346	7,644
Total TSS Revenue	10,386	10,243	(1)%	21,953	22,357
Cost of sales	(5,346)	(5,305)	1%	(10,839)	(11,885)
Operating costs before depreciation and amortisation	(1,239)	(1,114)	10%	(2,754)	(2,060)
Total TSS EBITDA	3,801	3,824	1%	8,360	8,412
TSS EBITDA margin	37%	37%		38%	38%

The local TSS business continued to demonstrate business resilience and diversity and recorded a 5% increase in revenue to HK$6,926 million for the six months ended 30 June 2021, compared to HK$6,622 million for the six months ended 30 June 2020. Total TSS revenue edged down 1% to HK$10,243 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, as the solid growth momentum of the Group's local business was partially offset by a slowdown in the Group's international voice wholesale business.

Local Data Services. Comprising broadband network revenue and local data revenue, local data services revenue rose by 5% year-on-year to HK$3,877 million for the six months ended 30 June 2021.

Broadband network business recorded revenue growth of 3% for the six months ended 30 June 2021. The business benefited from strong demand for high-quality network service from customers for work, study, and entertainment at home. This led to meaningful customer switch backs and the business achieved an overall net gain in broadband customers during the period, lifting the total broadband access lines by 1% to 1.634 million as at 30 June 2021. Of these, 920,000 were FTTH connections which represented a net increase of 57,000 or 7% growth from a year earlier. In addition, penetration of the Group's Home Wi-Fi solutions continued to rise. During the six months ended 30 June 2021, a total of 321,000 customers used the Group's Home Wi-Fi solutions, up 9% compared to the previous year and representing 22% of the Group's entire consumer broadband base.

The performance demonstrates the superior quality and reliability of the Group's fibre network which continued to drive strong demand for the Group's home broadband service. It also attests to the success of the Group's three-pronged strategy of offering FTTH service across Hong Kong, catering to different market segments through the HKT Premier, NETVIGATOR and LiKE100 brands, and delivering a wide range of service and content offerings as well as the Group's value-added Home Wi-Fi and Smart Living solutions.

The new normal of remote office led to heightened bandwidth requirements from enterprise customers keen to ensure operational continuity. The trend continued to drive demand for the Group's high-quality and reliable data connectivity services together with the Group's cloud and digital transformation solutions from enterprise customers of the Group in different industry verticals. These factors fueled a substantial growth of 9% in local data revenue. The growth was also partially attributed to the delivery of Government projects key to Hong Kong's smart mobility ambitions.

Local Telephony Services. Local telephony services revenue amounted to HK$1,449 million for the six months ended 30 June 2021 versus HK$1,532 million a year ago. The decline in revenue was primarily due to the continued migration of residential fixed-line customers to the Group's broadband and mobile services as well as continued softness in the SME segment during the period. The total number of fixed lines in service at the end of June 2021 was 2.486 million, compared to 2.564 million a year earlier.

Other Services. Other services revenue mainly comprises the sale of network equipment and customer premises equipment and the provision of technical and maintenance subcontracting services and Teleservices. Other services revenue for the six months ended 30 June 2021 increased by 15% to HK$1,600 million. This was attributed to the increased sales of business and network equipment for the deployment of customised projects essential to business continuity under the new normal, which also created an opportunity for the Group's contact centre business to support the growth of eCommerce and other online services in Hong Kong to a greater extent.

International Telecommunications Services. International telecommunications services revenue was HK$3,317 million for the six months ended 30 June 2021 versus HK$3,764 million a year ago due to a reduction in revenue from the global wholesale voice business which is a volume business with low margins. On the other hand, the demand for data connectivity as well as digital solutions integrated and orchestrated by the Console Connect Software Defined Interconnection platform remained strong during the period.

The TSS business registered an increase in EBITDA of 1% year-on-year to HK$3,824 million, primarily due to increased operating efficiencies and an ongoing focus on cost initiatives during the period. The EBITDA margin remained steady at 37%.

Mobile

	For the six months ended 30 June			For the year ended 31 December	
	2020	**2021**	**Better/ (worse)**	**2019**	**2020**
	(HK$ million)			(HK$ million)	
Mobile Revenue					
Mobile Services	3,573	3,577	–	8,414	7,757
Mobile Product Sales	970	1,531	58%	3,400	2,609
Total Mobile Revenue	4,543	5,108	12%	11,814	10,366
Mobile EBITDA					
Mobile Services	2,057	2,058	–	5,101	4,696
Mobile Product Sales	(7)	14	NA	(33)	51
Total Mobile EBITDA	2,050	2,072	1%	5,068	4,747
Mobile EBITDA margin	45%	41%		43%	46%
Mobile Services EBITDA margin	58%	58%		61%	61%

The Mobile business recorded a 12% growth in revenue to HK$5,108 million for the six months ended 30 June 2021. The Mobile services revenue held steady at HK$3,577 million, as the surge in local core revenue of 5% year-on-year more than compensated for the reduced contributions from the roaming business depressed by ongoing global travel restrictions. The surge in local core revenue benefited from the ARPU uplift from new subscriptions and upgrades to the Group's 5G services. Meanwhile, handset sales also performed well benefiting from the 5G handset upgrade cycle, improved consumer confidence and more traffic captured by the Group's digital channel Club Shopping.

Amid intense competition, the Mobile business continued to report a net gain in post-paid customers to 3.263 million in the first half of 2021. By leveraging The Club to deepen customer engagement and loyalty, the churn rate for post-paid customers reached an all-time low of 0.7% during the period. As of the end of June 2021, 454,000 customers had taken up the Group's 5G services, representing 14% of the Group's post-paid customer base. By the end of July 2021, 528,000 customers had subscribed to the Group's 5G services, representing 16% of the post-paid base.

The post-paid exit ARPU as at 30 June 2021 grew by 3% to HK$187 versus HK$181 as at 30 June 2020, primarily driven by the 5G service plan uplift and the enlarged 5G customer base.

Mobile services EBITDA for the period remained steady at HK$2,058 million, yielding a margin of 58% as a result of disciplined operating expenditure and optimisation of offline-to-online sales channels. Total Mobile EBITDA for the period increased by 1% to HK$2,072 million from HK$2,050 million a year earlier. The overall EBITDA margin was diluted to 41% with a higher proportion of handset sales which have lower margins.

Pay TV

The Now TV business recorded a revenue of HK$1,231 million for the six months ended 30 June 2021. This performance reflected the success of the Group's exclusive broadcast of UEFA EURO 2020™ in boosting the subscription service and the revenue generated from event-specific passes. The football tournament and associated programmes also created business partnership and advertising opportunities for the Now TV business. During the period, Now TV also benefited from revitalised economic activities, with total advertising revenue increasing by 48% year-on-year particularly driven by the financial and real estate sectors. The overall performance, however, was partially offset by the reduced spending from the bars and restaurants which were affected by social distancing policy in the first half of 2021.

By the end of June 2021, Now TV's installed base lifted to 1.352 million, compared to 1.348 million by the end of December 2020. The Group's Now E streaming service continued to tap into the digital native and mobile-savvy market with its unique content proposition and multiple subscription plans to choose from.

UEFA EURO 2020™ was one of the highlights on Now TV this year. The Group successfully expanded the audience base to non-soccer viewers via entertainment programmes leveraging the popularity of artistes from ViuTV of PCCW. A unique "Watch Party" feature was also launched on the Now Player app to facilitate virtual parties among viewers while watching the matches, which helped deepen customer engagement. Now TV is also providing extensive coverage of Hong Kong athletes competing at the Tokyo 2020 Olympics on multiple platforms of the Group.

Following the introduction of Now True in November 2020, Now TV launched Now Studio in March 2021 – a self-curated on-demand content library featuring the best in drama and entertainment from independent and Hollywood studios around the world. More new channels will be offered to viewers in the second half of the year to cater to the different appetites and preserve the premium content proposition.

EBITDA for the six months ended 30 June 2021 came to HK$212 million, representing a margin of 17%, aided by continued efforts to rationalise content costs and leverage quadplay synergies.

Other Businesses

Primarily comprising new businesses such as The Club and HKT Financial Services, and corporate support functions, Other Businesses recorded a substantial revenue growth of 163% to HK$408 million for the six months ended 30 June 2021 versus HK$155 million a year earlier.

The Club's membership base expanded by 8% to 3.29 million members from 3.04 million a year ago. The Club succeeded not only in attracting new members but also in deepening engagement with the Group's customers as the full convergence of multiple online businesses into a single online platform enhances the customer experience and drives traffic and transactions with rewards.

Tap & Go had over 3.0 million accounts in service as at 30 June 2021, an increase of 14% from 2.6 million a year earlier. In April 2021, Tap & Go was appointed as one of the SVF operators to implement the Government's consumption voucher scheme to help revive the local economy. Since then, the service has signed up a significant number of new users, while the registrations of new merchants for the Group's Smart POS, with Tap & Go pre-loaded, have also soared.

Eliminations

Eliminations were HK$1,347 million for the six months ended 30 June 2021 versus HK$478 million a year earlier, reflecting the increased collaboration across all of the Group's business segments and the integration of the Now TV business within the Group.

Cost of Sales

Cost of sales for the six months ended 30 June 2021 increased by 9% year-on-year to HK$7,550 million, reflecting the costs associated with higher Mobile product sales and with the full six-month contribution from the Now TV business during the period.

General and Administrative Expenses

For the six months ended 30 June 2021, operating costs before depreciation, amortisation, and gain on disposal of property, plant and equipment, net ("operating costs") increased by 12% to HK$2,374 million as a result of the consolidation of the Now TV business and investments in new businesses including The Club, Tap & Go and DrGo to support the business growth momentum. This increase in operating costs was partially mitigated by the Group's continued focus on operating efficiency through digitising business processes as well as optimising offline-to-online sales channels and retail footprint. Overall operating costs-to-revenue ratio for the period was 15.2% versus 14.5% a year earlier.

Depreciation expenses increased by 4% during the period, while amortisation expenses increased by 18% largely due to the inclusion of content amortisation from the integration of Now TV business. As such, total depreciation and amortisation expenses increased by 10% year-on-year to HK$2,751 million for the six months ended 30 June 2021.

As a result of the above, general and administrative expenses increased by 11% to HK$5,123 million for the six months ended 30 June 2021 versus HK$4,604 million a year earlier.

EBITDA

Total EBITDA increased by 3% to HK$5,719 million for the six months ended 30 June 2021 versus HK$5,550 million a year earlier. The overall EBITDA margin was stable at 37%, reflecting the effectiveness of the Group's cost control measures taken to mitigate the impact of the still challenging external environment on the Group's performance. Excluding Mobile product sales, the EBITDA margin held steady at 40% during the period.

SALES AND MARKETING

The Group's sales and marketing function is carried out by: a Hong Kong consumer sales and marketing group, a Hong Kong commercial sales and marketing group, and a global sales and marketing group. The three groups are respectively dedicated to the local consumer, commercial and global customer groups.

Various customer relationship management systems and databases are employed by the Group's sales and marketing function to market the telecommunications business services across its different customer groups, and to market new products and services to different customer groups.

The Group considers customer service a key to success. By improving overall customer service standards, the Group strives to deliver first-class service quality to provide a positive customer experience. The Group believes that excellent customer service is a foundation on which it can further grow its business.

To capture the higher-end customers, a HKT Premier team of relationship specialists and customer support and service staff was set up to serve their most exacting requirements – not only of broadband service, but also other quadruple-play offerings of the Group. The HKT Premier team is tasked to accommodate service requests from customers who expect only the highest service standards. This segmentation is common in many successful corporations in various industries such as airline and banking.

The Club continues to provide its members with a variety of exclusive services and benefits. As at 30 June 2021, The Club had approximately 3.29 million members.

COMPETITION

The implementation of the Hong Kong Government's policy to liberalise the telecommunications industry has resulted in intense competition in the markets for local and international services. The arrival and development of 5G mobile technology together with other emerging technologies, the introduction of new types of licences and the potential entry of new competitors may further intensify competition in the market.

The markets for local telecommunications services and IDD services originating in Hong Kong are expected to remain extremely competitive. In addition, mobile telecommunications prices have declined sufficiently so that customers are now more likely to substitute residential local exchange services for mobile telecommunications services. This has affected and continues to affect the Group's market position in the telecommunications market in Hong Kong.

The Group is required in certain situations to provide telecommunications services (including interconnection) to service providers that compete directly with its operations. In Hong Kong, the main competitors of the Group are Hong Kong Cable Television Limited, China Mobile Hong Kong Company Limited, Hong Kong Broadband Network Limited, HKBN Enterprise Solutions HK Limited and group companies, SmarTone Mobile Communications Limited, HGC Holdings Limited and Hutchison Telephone Company Limited.

The Group competes effectively in all of its lines of business by providing:

- a unique combination of "quadruple-play" delivery platforms through its established telecommunications infrastructure;
- an innovative and broad range of smart home and smart business solutions focused on data related products and value-added services for its individual and enterprise customers;
- dedicated sales units to address the needs of its global business, Hong Kong corporate and consumer customer market segments;
- leadership in overall service quality within the telecommunications market;
- new businesses such as Tap & Go mobile payment services; and
- customer retention through offering of benefits and privileges of The Club and using The Club platform to explore different verticals including travel, insurance and virtual banking.

The Group's established telecommunications infrastructure enables it to be price competitive across all of its lines of business. The Group continues to strive to provide customers with best quality and price competitive offerings and services.

REGULATION

The Telecommunications Ordinance (Chapter 106) of Hong Kong (the "**Telecommunications Ordinance**") and the Broadcasting Ordinance (Chapter 562) of Hong Kong (the "**Broadcasting Ordinance**") provide the legislative framework for the provision of telecommunications services and facilities and regulation of the broadcasting industry in Hong Kong.

The telecommunications and broadcasting industries in Hong Kong were previously regulated by the Telecommunications Authority and the Broadcasting Authority, which were merged into a single entity, the CA as from 1 April 2012. The CA continues to regulate the industries under the existing laws, licences, regulations and policies. The Broadcasting Ordinance and certain provisions of the Telecommunications Ordinance have recently undergone a review. The resulting changes to the Broadcasting Ordinance came into force on 5 February 2021. The changes to the Telecommunications Ordinance are expected to come into force shortly. The changes to the Broadcasting Ordinance and the Telecommunications Ordinance are not substantial for the Group's business. Telecommunications and broadcasting service providers will continue to operate under their existing licences granted pursuant to the Telecommunications Ordinance and the Broadcasting Ordinance.

FINANCING

The Group's outstanding external debt as at 31 December 2020 and 30 June 2021 was HK$42,271 million (including short-term debt of HK$1,552 million) and HK$43,119 million (including short-term debt of HK$60 million), respectively, and its net debt, which is calculated as outstanding external debt net of short-term deposits and cash and cash equivalents, was HK$39,642 million and HK$40,970 million, respectively.

Set forth below are the aggregate amounts, as at 31 December 2020 and 30 June 2021, of the Group's future debt service obligations under its borrowings (including total estimated interest payable under the remaining term of the borrowings).

	As at 31 December 2020	**As at 30 June 2021**
	(HK$ million)	
Principal repayable after one year		
over one year, but not exceeding two years	2,640	6,342
over two years, but not exceeding five years	24,283	22,941
over five years	13,796	13,776
	40,719	43,059
Sum of estimated future interest as at 31 December 2020 and 30 June 2021[1]	7,546	7,245
	48,265	50,304

Note:

(1) For floating rate debt, this represents total future interest payable estimated based on the outstanding principal amounts and their respective interest rate fixed as at 31 December 2020 and 30 June 2021.

For fixed rate debt, this represents total future interest payable estimated based on the outstanding principal amounts and their respective committed interest rate as at 31 December 2020 and 30 June 2021.

The major borrowings are summarised as follows:

(i) Existing loan facilities of the Group

Hong Kong Telecommunications (HKT) Limited entered into various bilateral revolving facilities with a group of banks for general corporate purposes. These facilities are unsecured and are guaranteed by HKTGH.

As at 31 December 2020 and 30 June 2021, the aggregate amount of bank loan facilities was HK$30,007 million and HK$29,678 million of which HK$9,069 million and HK$7,906 million remained undrawn, respectively.

(ii) U.S.$500 million 3.75% guaranteed notes due 2023

On 8 March 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 3.75% guaranteed notes due 2023, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(iii) U.S.$300 million zero coupon guaranteed notes due 2030

On 15 January 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$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 Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(iv) U.S.$500 million 3.625% guaranteed notes due 2025

On 2 April 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 3.625% guaranteed notes due 2025, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(v) €200 million 1.65% guaranteed notes due 2027

On 10 April 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued €200 million 1.65% guaranteed notes due 2027, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(vi) U.S.$750 million 3.00% guaranteed notes due 2026

On 14 July 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$750 million 3.00% guaranteed notes due 2026, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

(vii) U.S.$500 million 3.25% guaranteed notes due 2029

On 30 September 2019, HKT Capital No. 5 Limited, an indirect wholly-owned subsidiary of HKTGH and a direct wholly-owned subsidiary of Hong Kong Telecommunications (HKT) Limited, issued U.S.$500 million 3.25% guaranteed notes due 2029, which are listed on the SGX-ST. The notes are irrevocably and unconditionally guaranteed by HKTGH and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTGH and Hong Kong Telecommunications (HKT) Limited.

Capital Expenditure

Capital expenditure including capitalised interest for the six months ended 30 June 2021 was HK$1,209 million (30 June 2020: HK$1,198 million). Capital expenditure relative to revenue was 7.7% for the six months ended 30 June 2021 (30 June 2020: 8.2%).

Capital expenditure for the Group's Mobile business increased for the six months ended 30 June 2021 with the Group's continuous efforts in expanding and enriching its 5G network. TSS capital expenditure dropped during the period, in line with the capital expenditure cycle of the Group's extensive local fibre network and international cable systems.

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

Property, Plant and Equipment

The Group's property, plant and equipment primarily consist of transmission plants and exchange equipment (including switches, computer hardware, back-up power, plant etc.) and connecting lines (including cable ducting, copper and fibre optic cabling and poles). Hong Kong Telecommunications (HKT) Limited has been granted limited licences relating to the storage and access of network equipment in certain leasehold land and buildings owned by another member of the PCCW Group, which are principally permitted to be used as telephone exchanges, and in certain cases include engineering facilities, ancillary offices and technical centres. Nearly all such leases are private treaty grants from the Hong Kong Government, which contain restrictions on their use for specific purposes and on their transfer. The vast majority of these leases do not expire before 2025.

The net book values of the Group's property, plant and equipment as at 31 December 2020 and 30 June 2021 were as follows:

	Net Book Value	
	As at 31 December 2020	As at 30 June 2021
	(HK$ million)	
Property, Plant and Equipment:		
Buildings	618	604
Exchange equipment	5,764	5,898
Transmission plant	11,126	11,395
Other plant and equipment	4,417	4,696
Projects under construction	2,094	2,015
Total	24,019	24,608

INSURANCE

The Group has insurance policies providing coverage for its assets and operations including loss of or damage to its properties and assets, loss of profit and additional costs of working arising from loss or damage to its properties or assets, public liability, contractual liability, employment liability, errors and omissions, amongst others.

The Group believes that its properties are covered with adequate insurance provided through a combination of its own captive insurance company and direct insurance or reinsurance policies with reputable insurance companies and with commercially prudent deductibles and limits on coverage. Notwithstanding the Group's insurance provisions, the Group could nevertheless experience a material loss as a result of an unforeseeable series of catastrophic events, systemic adverse circumstances, or other adverse occurrences not currently foreseeable and/or not commercially insurable.

EMPLOYEES

The Group's future success will depend, in large part, on its ability to continue to attract, train, retain and motivate highly qualified technical and management personnel.

The Group had over 15,900 employees as at 30 June 2021 (30 June 2020: 15,900 employees) located in 47 countries and cities. Approximately 67% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the U.S.. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

INTELLECTUAL PROPERTY

The Group relies on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect its brand name and logos, marketing designs and Internet domain names. Over 300 registered trademarks are used and owned by the Group. The Group is not critically dependent upon any third-party patents or licences.

LITIGATION

Neither the Issuer nor the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or either Guarantor aware that any such proceedings are pending or threatened.

DIRECTORS AND SENIOR MANAGEMENT

The following individuals have been appointed to serve as the directors and senior management of the Group:

Name	Position
Directors	
Hui Hon Hing, Susanna	Group Managing Director and Executive Director of HKT; Director of HKTGH and Hong Kong Telecommunications (HKT) Limited
Wong Hong Kit, Evan	Chief Financial Officer of HKT; Director of HKTGH and Hong Kong Telecommunications (HKT) Limited
Senior Management	
Chan Chi-keung	Head of Group Communications
Chan Kee Sun, Tom	Managing Director, Commercial Group
Cheung Hok Chee, Vanessa	Group General Counsel and Company Secretary
C Marc Halbfinger	Chief Executive Officer, PCCW Global
Lam Kwok Shing, Bruce	Managing Director, Consumer Mobile
Leung Hoi Yi, Monita	Head of Financial Services
Veronica Lockyer	Head of Group Regulatory Affairs
Ng Wing Ho, Ringo	Managing Director, Consumer Group
Shum Wai Ling, Hester	Group Chief Human Resources Officer
Wong Che Hin, Kenneth	Head of Business Technology Unit

DIRECTORS

Hui Hon Hing, Susanna

Ms. Susanna Hui is the Group Managing Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since September 2018. She has been an Executive Director of HKT and HKT Management Limited since November 2011. She is a member of HKT's Executive Committee and holds directorships in various Group companies. She was the Group Chief Financial Officer of HKT from November 2011 to August 2018 primarily responsible for overseeing the financial matters of the Group. Ms. Hui is also the Group Chief Financial Officer and Executive Director of PCCW and a member of PCCW's Executive Committee.

Ms. Hui joined Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999. Since then, she has served the PCCW Group in various capacities in the past 22 years, including as Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms. Hui was an Executive Director of Pacific Century Premium Developments Limited (PCPD) and also the Chief Financial Officer of PCPD from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited, Ms. Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms. Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Wong Hong Kit, Evan

Mr. Evan Wong was appointed as the Chief Financial Officer of HKT in September 2018. He is primarily responsible for overseeing all the financial matters of HKT and its subsidiaries. Prior to his appointment as the Chief Financial Officer of HKT, he was the Senior Vice President of Group Finance from August 2011 to October 2014 and the Director of Group Finance for the PCCW Group from November 2014 to August 2018 leading the Group Financial Accounting and Regulatory Accounting team.

As a certified accountant, Mr. Wong gained extensive experience in auditing, accounting and finance. He has held a number of management and executive positions for 17 years prior to joining the PCCW Group in 2011. He was the Group Financial Controller of Tom Group International Limited from 2005 to 2010, and the Associate Director, Corporate Finance for New World Mobile Holdings Limited between 2004 and 2005.

He also worked in PricewaterhouseCoopers for ten years and left the audit firm in June 2004 as a Senior Manager in the Capital Market Group.

Mr. Wong graduated with a bachelor's degree in Business Administration from the Chinese University of Hong Kong in 1994. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants for over 20 years.

SENIOR MANAGEMENT

Chan Chi-keung

Mr. Chan Chi-keung is the Head of Group Communications. He is responsible for HKT's corporate communications, media relations, branding, community services, and publicity and sponsorship on a group level. Mr. Chan has many years of experience in journalism, community relations and corporate communications. Before joining PCCW in 2008 as Vice President, Corporate Communications, he was Head of Corporate Communications at the Hong Kong Securities and Futures Commission. Prior to that, he had worked as a journalist at the South China Morning Post. Mr. Chan is a holder of Bachelor of Social Sciences degree from the University of Hong Kong.

Chan Kee Sun, Tom

Mr. Tom Chan is the Managing Director, Commercial Group, responsible for the telecommunications business for the enterprise and wholesales sectors. He also oversees the teleservices business of HKT and the management of HKT's property portfolio. Before his present appointment, Mr. Chan had held various management and executive positions within PCCW in the areas of finance, regulatory affairs, operations, as well as sales and marketing. He was Managing Director of the Consumer Group from 2006 to January 2012. As a professional accountant, Mr. Chan was engaged in audit and financial analyst positions prior to joining the Hong Kong Telecommunications Limited group in 1988. Mr. Chan graduated from Cardiff University, United Kingdom with a Bachelor of Economics and Social Studies degree in July 1982. He is a fellow member of the Association of Chartered Certified Accountants since October 1990 and the Chartered Institute of Marketing in the United Kingdom since February 2001.

Cheung Hok Chee, Vanessa

Ms. Vanessa Cheung was appointed as the Group General Counsel and Company Secretary of HKT and HKT Management Limited, the trustee-manager of the HKT Trust in October 2021. She is also the Group General Counsel and Company Secretary of PCCW. Ms. Cheung is qualified to practice law in Hong Kong and England and Wales. She has extensive experience in general corporate matters including joint ventures, mergers and acquisitions, private equity and venture capital transactions, charitable organisations and equity capital market transactions. She had previously been a corporate partner of a leading law firm in the Greater China region.

C Marc Halbfinger

Mr. Marc Halbfinger is the Chief Executive Officer, PCCW Global, a position which he held since July 2007. He is primarily responsible for the integrated global communication solutions business. He has spent the past 24 years in media and telecommunications services with experience in cable TV, directories, cellular, and international voice, video, data and Internet. Mr. Halbfinger joined PCCW in May 2000 as the Senior Vice President, Business Development of Pacific Convergence Corporation, Ltd. covering Europe and North America markets where he was involved in early commercial development of "Now TV". In 2001, he helped found Beyond-The-Network, which later became part of PCCW Global, and was initially appointed as the President for Europe, Middle East, and Africa. Prior to joining PCCW, Mr. Halbfinger was a Vice President at Teleglobe serving the Mediterranean and South Europe. Previously, he was a senior manager at Global One, Sprint International, and a subsidiary of Southwestern Bell Corporation. Among other academic achievements, Mr. Halbfinger earned a Master of Science (Econ.) in international relations from the London School of Economics and Political Science in August 1988.

Lam Kwok Shing, Bruce

Mr. Bruce Lam is the Managing Director, Consumer Mobile. Mr. Lam holds more than 20 years' experience in telecommunications and joined HKT in 2011, as the Managing Director of CSL Mobile Limited. He is responsible for the overall strategic planning and corporate decisions in HKT's wireless business, with key focus in sales and marketing performance. CSL now commands the largest market share in Hong Kong's telecommunications industry, and maintains HKT's leadership in the Hong Kong 5G development. Mr. Lam has a Bachelor degree in Economics from the University of Windsor.

Leung Hoi Yi, Monita

Ms. Monita Leung was appointed as the Head of Financial Services of HKT in 2018, responsible for FinTech business development. Ms. Leung joined HKT in 2001 and led the broadband marketing of Consumer Group from 2005 to 2011, during which she played an integral part of the success of high-speed FTTH service rollout in Hong Kong. She took the leading role in the operations, marketing and relationship management of HKT Premier in 2011, providing service excellence to affluent customers. Since 2014, she had been involved in the planning and implementation of Hong Kong's first mobile payment service Tap & Go.

Prior to joining HKT, Ms. Leung spent 10 years working in Chase and American Express, where she focused on consumer credit and payment card business in Hong Kong. Ms Leung graduated from The Hong Kong Polytechnics University, with a Professional Diploma (degree equivalent) in Business Management.

Veronica Lockyer

Ms. Veronica Lockyer was appointed as the Head of Group Regulatory Affairs in January 2018. She is responsible for facilitating the group companies to meet their business goals by interacting with relevant government entities, engaging with the Government on policy matters and ensuring compliance with applicable policies, regulations and laws. Prior to joining HKT in 2013 as Vice President, Regulatory Compliance, she spent 15 years working in international law firms in London, Brussels and Shanghai where she focused on competition, commercial, consumer and market regulatory issues. Ms. Lockyer graduated with a degree in Modern and Classical Chinese from the School of Oriental and African Studies, University of London and qualified as a lawyer in 2000.

Ng Wing Ho, Ringo

Mr. Ringo Ng is the Managing Director, Consumer Group. He is responsible for product development, marketing and promotion, customer sales network, customer service and back office technical support. Mr. Ng has over 20 years of management experience in consumer business. Before his present appointment, he was the General Manager of Hilti China Limited. In his past career, he has managed several well-known brands of consumer products. In addition, he has multiple-market management experience across different industries throughout Asia Pacific and has a proven track record in expediting business performance particularly in Hong Kong and mainland China. Mr. Ng graduated with a Master's Degree in Business Administration, majoring in Marketing from York University, Toronto in 1992.

Shum Wai Ling, Hester

Ms. Hester Shum was appointed as the Group Chief Human Resources Officer in July 2019. She is responsible for all the talent agendas including talent management and acquisition, total reward as well as organisation and employee development of all the businesses under the Group in Hong Kong and all overseas markets.

Ms. Shum has over 30 years of experience in strategic human resources management gained in multiple industries across airline, trading and telecommunications. Her IT human resources leadership career spanned over numerous Fortune 500 companies including Intel, Cisco Systems and most recently Equinix. She also served at a Hong Kong listed trading company progressing as their Executive Vice President of Human Resource heading their global human resources organisations in more than 40 economies.

Ms. Shum holds a Bachelor's degree in Arts from Chinese University of Hong Kong, a Master of Management specialised in Human Resources Management from Macquarie Graduate School of Management, and attended progressive executive leadership programme with Massachusetts Institute of Technology.

Wong Che Hin, Kenneth

Mr. Kenneth Wong is the Head of Business Technology Unit, a position which he has held since December 2015 when he re-joined HKT. Mr. Wong is responsible for product and application services development and the business IT systems for the Group. He has extensive experience in the broad spectrum of IT and digital media. Mr. Wong first joined HKT in 1995 as an IT system specialist and was promoted to various senior positions including the Senior Vice President of Integration Services, the Chief Technology Officer of Advertising and Interactive Services, and Director of Business Development of IPTV Solutions. Prior to rejoining the Group, he was the Chief Operating Officer of TVB.COM Limited from 2012 to 2015, responsible for digital media development and operation including live News, TV VOD services and interactive-TV services.

Mr. Wong graduated with a degree in Computing Science from University of Essex, UK in 1983, a Master of Science in Analysis, Design and Management of Information Systems from London School of Economics and Political Science in 1984, a Master's Degree in Commerce from University of New South Wales in 1992, and a Master of Business Administration from the Deakin University in 2002. Mr. Wong serves as a member of the CIO Board of the Hong Kong Computer Society. He is also a Chartered IT Professional (CITP) of the British Computer Society and a member of Certified Practising Accountant (CPA) Australia.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, after deducting fees, commissions and expenses are estimated to be approximately U.S.$647.1 million. The Group will use the net proceeds for its general corporate purposes, including the repayment of existing indebtedness.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes.

Prospective holders of the Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

BRITISH VIRGIN ISLANDS

As a company incorporated under the BVI Business Companies Act, 2004, the Issuer is exempt from all provisions of the Income Tax Act of the British Virgin Islands (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the company to persons who are not persons resident in the British Virgin Islands).

Capital gains realised with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the company, save for interest payable to or for the benefit of an individual resident in the European Union.

The Issuer is required to pay an annual government fee which is determined by reference to the amount of shares the Issuer is authorised to issue.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes, or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Notes may be deemed to be profits which are subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes may be deemed to be profits which are subject to Hong Kong profits tax. Sums received by or accrued to a corporation by way of gains or profits arising through or from the carrying on by the corporation of its trade, profession or business in Hong Kong from the sale, disposal or other redemption of Notes may be deemed to be profits which are subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions and/or reliefs (such as concessionary tax rates) may be available to Hong Kong taxpayers. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions and/or reliefs to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

CAYMAN ISLANDS

Under existing Cayman Islands laws:

(1) payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(2) no stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution, issue or transfer of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands;

(3) certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty; and

(4) no stamp duty is payable in the Cayman Islands on transfers of shares of companies in Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands, the Cayman Islands and Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the U.S. to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under "*Terms and Conditions – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Issuer and the Guarantors have entered into a subscription agreement with the Joint Lead Managers, pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Joint Lead Managers, and each of the Joint Lead Managers, agreed to subscribe for the aggregate principal amount of the Notes, and each Guarantor agreed, unconditionally and irrevocably, jointly and severally, to guarantee the Notes at an issue price of 99.923%. of their principal amount set forth below:

	Principal Amount of Notes
The Hongkong and Shanghai Banking Corporation Limited	U.S.$108,334,000
Morgan Stanley & Co. International plc	U.S.$108,334,000
DBS Bank Ltd.	U.S.$108,333,000
Mizuho Securities Asia Limited	U.S.$108,333,000
SMBC Nikko Securities (Hong Kong) Limited	U.S.$108,333,000
Standard Chartered Bank	U.S.$108,333,000
Total	U.S.$650,000,000

The Subscription Agreement provides that each of the Issuer and each Guarantor will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Joint Lead Managers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Guarantors and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Guarantors and/or their respective affiliates in the ordinary course of their business.

The Joint Lead Managers and certain of their respective affiliates may purchase the Notes and be allocated Notes (which may be material) for asset management and/or proprietary purposes and not with a view to distribution.

Each of the Joint Lead Managers or certain of their respective affiliates may purchase the Notes for its own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the Guarantors or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

GENERAL

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or either Guarantor that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer, the Guarantors and the Joint Lead Managers.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Joint Lead Manager or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

UNITED STATES

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Guarantee (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the U.S. or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the U.S. or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. The Notes and the Guarantee are being offered and sold outside of the U.S. to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and Guarantee, an offer or sale of Notes and the Guarantee within the U.S. by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Joint Lead Managers has represented and agreed that:

(i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or each of the Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each of the Joint Lead Managers has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "**professional investors**" as defined in the Securities and Futures Ordinance (Chapter 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification – In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**") and, accordingly, each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

BRITISH VIRGIN ISLANDS

Each of the Joint Lead Managers has represented and agreed that it has not made and will not make any invitation to the public in the British Virgin Islands to offer or sell the Notes.

CAYMAN ISLANDS

Each of the Joint Lead Managers has represented and warranted that the public in the Cayman Islands will not be invited to subscribe directly or indirectly for the Notes.

RATINGS

The Notes are expected to be rated "**Baa2**" by Moody's and "**BBB**" by S&P. A rating is not a recommendation to buy, sell or hold any Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

GENERAL INFORMATION

1. CLEARING SYSTEMS

The Notes have been accepted for clearance through Euroclear and Clearstream under Common Code number 241413071. The International Securities Identification Number for the Notes is XS2414130711.

2. LISTING OF NOTES

Approval in-principle has been received from the SGX-ST for the listing of and quotation for the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in foreign currencies, for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by the Issuer through the SGX-ST and such an announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

3. AUTHORISATIONS

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 10 January 2022. The Guarantors have obtained all necessary consents, approvals and authorisations in connection with the provision of the Guarantee and performance of their obligations under the Guarantee. The provision of the Guarantee was authorised by resolutions of the Board of Directors of each Guarantor on 10 January 2022.

4. NO MATERIAL ADVERSE CHANGE

There has been no material adverse change in the financial or trading position or prospect of the Issuer since its date of incorporation and the Group since 31 December 2020.

5. LITIGATION

Neither the Issuer nor the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or either Guarantor aware that any such proceedings are pending or threatened.

6. AVAILABLE DOCUMENTS

The audited consolidated financial statements of HKTGH for the year ended 31 December 2020, as well as the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Issuer at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong during normal business hours, so long as any of the Notes is outstanding.

7. AUDITOR

The audited consolidated financial statements of HKTGH for the year ended 31 December 2020, which are reproduced in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in their report reproduced herein. The unaudited condensed consolidated interim financial information of the HKT Trust and HKT for the six months ended 30 June 2021, which is incorporated by reference in this Offering Circular, has been reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, is the independent auditor of Hong Kong Telecommunications (HKT) Limited.

8. LEI NUMBER

The Issuer's LEI number is 254900F4EZA4GPR3LG03.

INDEX TO AUDITED FINANCIAL INFORMATION

Audited Consolidated Financial Statements of HKTGH for the year ended 31 December 2020

The following is the reproduction of the audited consolidated financial statements of HKTGH for the year ended 31 December 2020 together with the independent auditor's report.

References to page numbers in the following consolidated financial statements refer to the original page numbers of the audited consolidated financial statements and cross-references to page numbers are to such original page numbering. The audited consolidated financial statements have not been specifically prepared for the inclusion in this offering circular.

Financial Information extracted from the Audited Consolidated Financial Statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2020

The selected financial information of Hong Kong Telecommunications (HKT) Limited (the "**Company**") presented below as at and for the two years ended 31 December 2019 and 31 December 2020 has been extracted from the audited consolidated financial statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2020. The audited consolidated financial statements have not been specifically prepared for the inclusion in this offering circular.

The consolidated financial information for the year ended 31 December 2020 has been prepared for refinancing purposes. The Company, as a wholly-owned subsidiary of HKT (Hong Kong) Limited, has applied section 379(3) of the Companies Ordinance (Chapter 622) of Hong Kong in preparing company level financial statements as the Company's statutory financial statements. Consequently, this consolidated financial information and the comparatives do not constitute the Company's statutory financial statements for either of the years ended 31 December 2019 or 31 December 2020. Information relating to the Company's statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622) of Hong Kong 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 consolidated 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 report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance (Chapter 622) of Hong Kong.

The following is the reproduction of the audited consolidated financial statements of HKTGH for the year ended 31 December 2020 together with the independent auditor's report.

References to page numbers in the following consolidated financial statements refer to the original page numbers of the audited consolidated financial statements and cross-references to page numbers are to such original page numbering.

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") set out on pages 4 to 99, which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- 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 a summary of principal accounting policies.

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, 2020, 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 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.

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.

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

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 9, 2021

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	Note(s)	2019	**2020**
Revenue	5, 6	33,103	**32,389**
Cost of sales	8(b)	(15,787)	**(15,703)**
General and administrative expenses	8(c)	(9,616)	**(9,487)**
Other gains, net	7	1	**359**
Finance costs, net	9	(1,523)	**(1,384)**
Share of results of associates		(33)	**(68)**
Share of results of joint ventures		(21)	**(19)**
Profit before income tax	5, 8	6,124	**6,087**
Income tax	11	(1,013)	**(843)**
Profit for the year		5,111	**5,244**
Profit attributable to:			
Equity holder of the Company		5,091	**5,228**
Non-controlling interests		20	**16**
Profit for the year		5,111	**5,244**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	2019	**2020**
Profit for the year	5,111	**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	2	**68**
Reclassification of currency translation reserve on disposal of subsidiaries	-	**5**
Cash flow hedges:		
- effective portion of changes in fair value	257	**(268)**
- transfer from equity to consolidated income statement	152	**(82)**
Costs of hedging	11	**181**
Other comprehensive income/(loss) for the year	422	**(96)**
Total comprehensive income for the year	5,533	**5,148**
Attributable to:		
Equity holder of the Company	5,513	**5,134**
Non-controlling interests	20	**14**
Total comprehensive income for the year	5,533	**5,148**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	Note	2019 Attributable to equity holder of the Company	Non-controlling interests	Total equity
At January 1, 2019		30,172	39	30,211
Total comprehensive income for the year				
Profit for the year		5,091	20	5,111
Other comprehensive income				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		2	-	2
Cash flow hedges:				
- effective portion of changes in fair value	26(c)	257	-	257
- transfer from equity to consolidated income statement	26(c)	152	-	152
Costs of hedging	26(c)	11	-	11
Other comprehensive income		422	-	422
Total comprehensive income for the year		5,513	20	5,533
Transactions with equity holder				
Issue of ordinary shares	28(a)	354	-	354
Dividend paid in respect of the previous year	12	(2,966)	-	(2,966)
Interim dividend declared and paid in respect of the current year	12	(2,272)	-	(2,272)
Dividends declared and paid to non-controlling shareholders of subsidiaries		-	(13)	(13)
Total contributions by and distributions to equity holder		(4,884)	(13)	(4,897)
Acquisition of a subsidiary		-	1	1
Change in ownership interests in a subsidiary that does not result in a loss of control		(19)	11	(8)
Total changes in ownership interests in subsidiaries that do not result in a loss of control		(19)	12	(7)
Total transactions with equity holder		(4,903)	(1)	(4,904)
At December 31, 2019		30,782	58	30,840

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	Note	2020 Attributable to equity holder of the Company	Non-controlling interests	Total equity
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)**
At December 31, 2020		**32,800**	**62**	**32,862**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

In HK$ million	Note(s)	2019	**2020**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	22,177	**24,019**
Right-of-use assets	14	2,436	**2,430**
Interests in leasehold land	15	215	**202**
Goodwill	16	49,814	**49,816**
Intangible assets	17	10,118	**11,408**
Fulfillment costs		1,342	**1,418**
Customer acquisition costs		592	**670**
Contract assets		346	**354**
Interests in associates	18	209	**211**
Interests in joint ventures	19	495	**438**
Financial assets at fair value through other comprehensive income	20	124	**124**
Financial assets at fair value through profit or loss	21	32	**72**
Derivative financial instruments	26	284	**214**
Deferred income tax assets	30	410	**841**
Other non-current assets	23	1,106	**1,076**
		89,700	**93,293**
Current assets			
Inventories	24(a)	803	**820**
Prepayments, deposits and other current assets	24(b)	1,809	**2,205**
Contract assets		576	**657**
Trade receivables, net	24(c)	3,600	**3,253**
Amounts due from related companies	4(c)	95	**40**
Financial assets at fair value through profit or loss	21	25	**31**
Derivative financial instruments	26	6	**-**
Tax recoverable		-	**1**
Restricted cash	24(d)	115	**107**
Short-term deposits		486	**538**
Cash and cash equivalents	32(c)	2,416	**2,091**
		9,931	**9,743**
Current liabilities			
Short-term borrowings	24(e)	-	**(1,552)**
Trade payables	24(f)	(2,342)	**(3,945)**
Accruals and other payables		(3,916)	**(4,091)**
Derivative financial instruments	26	-	**(24)**
Carrier licence fee liabilities	31	(195)	**(215)**
Amounts due to fellow subsidiaries and the immediate holding company	4(c), 4(d)	(10,003)	**(6,616)**
Amount due to a related company	4(c)	-	**(42)**
Advances from customers		(291)	**(247)**
Contract liabilities		(1,361)	**(1,423)**
Lease liabilities		(1,065)	**(1,251)**
Current income tax liabilities		(908)	**(863)**
		(20,081)	**(20,269)**

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AS AT DECEMBER 31, 2020

In HK$ million	Note	2019	**2020**
Non-current liabilities			
Long-term borrowings	25	(40,358)	**(40,719)**
Derivative financial instruments	26	(38)	**(128)**
Deferred income tax liabilities	30	(3,874)	**(4,253)**
Carrier licence fee liabilities	31	(527)	**(627)**
Contract liabilities		(1,001)	**(1,074)**
Lease liabilities		(1,697)	**(1,458)**
Other long-term liabilities		(1,215)	**(1,646)**
		(48,710)	**(49,905)**
Net assets		30,840	**32,862**
CAPITAL AND RESERVES			
Share capital	28	4,961	**4,961**
Reserves	29	25,821	**27,839**
Equity attributable to equity holder of the Company		30,782	**32,800**
Non-controlling interests	22(b)	58	**62**
Total equity		30,840	**32,862**

Approved and authorized for issue by the board of directors (the "Board") on April 9, 2021 and signed on behalf of the Board by

Hui Hon Hing, Susanna
Director

Wong Hong Kit
Director

HKT GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	Note	2019	**2020**
NET CASH GENERATED FROM OPERATING ACTIVITIES	32(a)	11,235	**10,448**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		4	**3**
Purchases of property, plant and equipment		(2,642)	**(2,377)**
Additions of intangible assets		(2,487)	**(2,391)**
Net outflow of cash and cash equivalents in respect of business combinations		(4)	**(1,881)**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries		-	**136**
Investment in an associate		(242)	**(70)**
Investment in a joint venture		(35)	**-**
Investment in a financial asset at fair value through other comprehensive income		(47)	**-**
Investments in financial assets at fair value through profit or loss		(31)	**-**
Loans to an associate		(46)	**(11)**
Loans to a joint venture		(50)	**(56)**
Repayment of loan from an associate		34	**11**
Cash received from lease receivables		71	**69**
Decrease/(Increase) in short-term deposits with maturity more than three months		37	**(52)**
NET CASH USED IN INVESTING ACTIVITIES		(5,438)	**(6,619)**
FINANCING ACTIVITIES			
New borrowings raised	32(b)	12,948	**19,511**
Finance costs paid	32(b)	(928)	**(772)**
Repayments of borrowings	32(b)	(12,570)	**(17,693)**
Payment for lease liabilities (including interest)	32(b)	(1,644)	**(1,590)**
Movement in amounts due to fellow subsidiaries and the immediate holding company	32(b)	1,193	**(475)**
Dividends paid to the sole shareholder of the Company	12	(5,238)	**(5,168)**
Dividends paid to non-controlling shareholders of subsidiaries		(13)	**(14)**
Consideration paid to acquire non-controlling interests of a subsidiary		-	**(8)**
Proceeds from issue of ordinary shares	28(a)	354	**2,020**
NET CASH USED IN FINANCING ACTIVITIES		(5,898)	**(4,189)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		(101)	**(360)**
Exchange differences		(17)	**35**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,534	**2,416**
End of year	32(c)	2,416	**2,091**

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, media entertainment, 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.

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The 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 new or amended Hong Kong Financial Reporting Standards (the "new or amended HKFRSs") are adopted for the financial year beginning January 1, 2020, but have no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 1 (Revised) (Amendments), *Presentation of Financial Statements*
- HKAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 39 (Amendments), *Financial Instruments: Recognition and Measurement*
- HKFRS 3 (Revised) (Amendments), *Business Combinations*
- HKFRS 7 (Amendments), *Financial Instruments: Disclosures*
- HKFRS 9 (2014) (Amendments), *Financial Instruments*
- HKFRS 16 (Amendments), *Leases*
- Conceptual Framework for Financial Reporting 2018

The Group has not early adopted any other new or amended HKFRSs and HKASs 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, 2020 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, 2020, the current liabilities of the Group exceeded its current assets by HK$10,526 million. Included in the current liabilities were (i) short-term borrowings of HK$1,552 million, which mainly represented the reclassification of borrowings from non-current liabilities to current liabilities in the current year as their maturity dates fall due within the next twelve-month period and the Group has arrangements to refinance this balance via long-term borrowings; and (ii) current portion of contract liabilities of HK$1,423 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 the undrawn banking facilities totaling HK$9,069 million as at December 31, 2020, 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 the 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 expect 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 3 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.

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.

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

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

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, 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 are 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.

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

ad. Employee benefits *(continued)*

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.

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 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 venturers;

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 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, 2020, potential future undiscounted cash outflows of HK$570 million (2019: HK$445 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	2019	**2020**
Telecommunications service fees and data center service fees received or receivable from a substantial shareholder of PCCW	a	71	**77**
Telecommunications service fees and data center service fees paid or payable to a substantial shareholder of PCCW	a	95	**101**
Telecommunications service fees, consultancy service charges and interest income received or receivable from joint ventures	a	35	**27**
Telecommunications service fees and interest expense paid or payable to joint ventures	a	130	**122**
Telecommunications service fees, connectivity service fees, interest income, call center service charges, equipment sales, consultancy service charges and other costs recharge received or receivable from associates	a	6	**20**
Telecommunications service fees, data center service fees, connectivity service fees, equipment sales, insurance premium, insurance agency service charges and other costs recharge received or receivable from related parties under common shareholders with the Company	a	51	**56**
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	172	**127**
Telecommunications service fees, connectivity service fees, management fee, equipment sales, content provision fees and other costs recharge received or receivable from fellow subsidiaries	a	2,109	**2,043**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy service charges, rental and facilities management charges, management fee and other costs recharge paid or payable to fellow subsidiaries	a	2,968	**2,421**
Interest paid or payable to the immediate holding company	a	151	**88**
Key management compensation	b	24	**25**

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	2019	**2020**
Salaries and other short-term employee benefits	18	**18**
Share-based compensation	5	**6**
Post-employment benefits	1	**1**
	24	**25**

c. Balances with related companies and fellow subsidiaries

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 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, 2019, other than as specified in notes 18 and 19 and certain unsecured loans included in the amounts due from related companies totaling HK$19 million which bear interest at 3% per annum and are 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.

d. Amount due to the immediate holding company

The balance is unsecured, non-interest bearing and has no fixed repayment terms, except for the loan payable to the immediate holding company of HK$4,994 million as at December 31, 2020 (2019: HK$6,960 million) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.3% per annum (2019: same) and is repayable within one year.

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, gain/loss on disposal of property, plant and equipment, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures.

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:

	2019				
In HK$ million	TSS	Mobile	Other Businesses	Eliminations	Consolidated
Revenue					
External revenue	21,265	11,612	226	-	33,103
Inter-segment revenue	688	202	10	(900)	-
Total revenue	21,953	11,814	236	(900)	33,103
External revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	2,324	3,306	72	-	5,702
Over time	18,874	8,306	154	-	27,334
External revenue from other sources:					
Rental income	67	-	-	-	67
	21,265	11,612	226	-	33,103
Results					
EBITDA	8,360	5,068	(605)	-	12,823
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,675	881	146	-	2,702

5 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million	TSS	Mobile	Pay TV	2020 Other Businesses	Eliminations	Consolidated
Revenue						
External revenue	**21,608**	**10,130**	**418**	**233**	**-**	**32,389**
Inter-segment revenue	**749**	**236**	**229**	**8**	**(1,222)**	**-**
Total revenue	**22,357**	**10,366**	**647**	**241**	**(1,222)**	**32,389**
External revenue from contracts with customers:						
Timing of revenue recognition						
At a point in time	**2,672**	**2,519**	**9**	**61**	**-**	**5,261**
Over time	**18,868**	**7,611**	**409**	**161**	**-**	**27,049**
External revenue from other sources:						
Rental income	**68**	**-**	**-**	**11**	**-**	**79**
	21,608	**10,130**	**418**	**233**	**-**	**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**

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

In HK$ million	2019	2020
Total segment EBITDA	12,823	**12,538**
(Loss)/Gain on disposal of property, plant and equipment, net	(2)	**2**
Depreciation and amortization	(5,121)	**(5,341)**
Other gains, net	1	**359**
Finance costs, net	(1,523)	**(1,384)**
Share of results of associates	(33)	**(68)**
Share of results of joint ventures	(21)	**(19)**
Profit before income tax	6,124	**6,087**

5 SEGMENT INFORMATION *(CONTINUED)*

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	2019	**2020**
Hong Kong (place of domicile)	28,201	**27,024**
Mainland and other parts of China	544	**942**
Others	4,358	**4,423**
	33,103	**32,389**

As at December 31, 2020, the total of non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK$88,773 million (2019: HK$85,544 million), and the total of these non-current assets located in other countries was HK$2,957 million (2019: HK$2,909 million).

6 REVENUE

In HK$ million	2019	**2020**
Revenue from contracts with customers	33,036	**32,310**
Revenue from other sources: rental income	67	**79**
	33,103	**32,389**

a. Revenue recognition in relation to contract liabilities

In HK$ million	2019	**2020**
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,415	**1,361**

b. Unsatisfied long-term fixed-price contracts

In HK$ million	2019	**2020**
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31,	16,658	**18,670**

As at December 31, 2020, management expected that 58% and 25% (2019: 60% 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 17% (2019: 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.

7 OTHER GAINS, NET

In HK$ million	2019	**2020**
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	1	**4**
	1	**359**

8 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2019	**2020**
Salaries, bonuses and other benefits	2,054	**1,803**
Share-based compensation expenses	42	**39**
Retirement costs for staff under defined contribution retirement schemes	308	**296**
	2,404	**2,138**
Less: staff costs included in cost of sales	(835)	**(733)**
Staff costs included in general and administrative expenses	1,569	**1,405**

b. Cost of sales

In HK$ million	2019	**2020**
Cost of inventories sold	5,469	**5,130**
Connectivity costs	6,386	**6,741**
Staff costs	835	**733**
Write-back of provision for inventory obsolescence, net	(2)	**(16)**
Others	3,099	**3,115**
	15,787	**15,703**

8 PROFIT BEFORE INCOME TAX *(CONTINUED)*

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

c. General and administrative expenses

In HK$ million	2019	**2020**
Staff costs	1,569	**1,405**
Impairment loss for trade receivables	222	**256**
Depreciation of property, plant and equipment	1,150	**1,118**
Depreciation of right-of-use assets – land and buildings	1,259	**1,302**
Depreciation of right-of-use assets – network capacity and equipment	234	**175**
Amortization of land lease premium – interests in leasehold land	12	**13**
Amortization of intangible assets	1,126	**1,327**
Amortization of fulfillment costs	489	**481**
Amortization of customer acquisition costs	851	**925**
Exchange (gains)/losses, net	(145)	**107**
Less: cash flow hedges: transfer from equity	160	**(73)**
Loss/(Gain) on disposal of property, plant and equipment, net	2	**(2)**
Auditor's remuneration	11	**11**
Others	2,676	**2,442**
	9,616	**9,487**

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	2019	**2020**
Interest expense, excluding interest expense on lease liabilities	(1,441)	**(1,314)**
Interest expense on lease liabilities	(92)	**(86)**
Notional accretion on carrier licence fee liabilities	(35)	**(36)**
Other finance costs	(157)	**(92)**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk	48	**4**
Hedge ineffectiveness: interest rate swap contracts – cash flow hedges for interest rate risk	7	**(2)**
Cash flow hedges: transfer from equity	8	**9**
Impact of re-designation of fair value hedges	(16)	**(16)**
	(1,678)	**(1,533)**
Interest capitalized in property, plant and equipment and intangible assets *(note a)*	91	**105**
Total finance costs	(1,587)	**(1,428)**
Interest income	56	**37**
Interest income from net investment in leases	8	**7**
Total interest income	64	**44**
Finance costs, net	(1,523)	**(1,384)**

a. The capitalization rate used to determine the amount of interest eligible for capitalization in property, plant and equipment and intangible assets ranged from 2.88% to 3.49% for the year ended December 31, 2020 (2019: from 2.97% to 3.47%).

10 DIRECTORS' EMOLUMENTS

The salaries and other short-term employee benefits and post-employment benefits of approximately HK$24 million and HK$1 million (2019: HK$23 million and HK$1 million) respectively cover the compensation for the two directors of the Company for the year (2019: two).

11 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2019	**2020**
Current income tax:		
Hong Kong profits tax		
- provision for current year	460	**401**
- (over)/under provision in respect of prior years	(9)	**4**
Overseas tax		
- provision for current year	32	**14**
- (over)/under provision in respect of prior years	(6)	**3**
Movement of deferred income tax *(note 30(a))*	536	**421**
	1,013	**843**

Hong Kong profits tax is provided at the rate of 16.5% (2019: 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	2019	**2020**
Profit before income tax	6,124	**6,087**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2019: 16.5%)	1,010	**1,004**
Effect of different tax rates of subsidiaries operating overseas	18	**10**
Income not subject to tax	(25)	**(223)**
Expenses not deductible for tax purposes	56	**66**
Tax losses not recognized	47	**67**
(Over)/Under provision in respect of prior years, net	(15)	**7**
Utilization of previously unrecognized tax losses	(10)	**(13)**
Recognition of previously unrecognized temporary differences	(11)	**(6)**
Net losses of associates and joint ventures not deductible for tax purposes	9	**14**
Corporate income tax incentives	(66)	**(83)**
Income tax expense	1,013	**843**

12 DIVIDENDS

In HK$ million	2019	**2020**
Interim dividend declared and paid in respect of the current year of approximately HK$3.32 (2019: approximately HK$3.57) per ordinary share of the Company	2,272	**2,110**
Final dividend declared in respect of the previous financial year, approved and paid during the year of approximately HK$4.81 (2019: approximately HK$4.66) per ordinary share of the Company	2,966	**3,058**
	5,238	**5,168**
Final dividend declared after the end of the reporting period of approximately HK$4.88 (2019: approximately HK$4.81) per ordinary share of the Company	3,058	**3,104**

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

	2019					
In HK$ million	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,389	22,475	25,663	12,927	2,622	65,076
Additions	-	552	399	430	1,321	2,702
Additions upon business combination	-	-	-	15	-	15
Disposals	-	(388)	(3)	(106)	-	(497)
Transfers	-	314	762	526	(1,602)	-
Exchange differences	-	1	30	(18)	-	13
End of year	1,389	22,954	26,851	13,774	2,341	67,309
Accumulated depreciation and impairment						
Beginning of year	713	17,649	16,400	9,713	-	44,475
Charge for the year	29	316	489	316	-	1,150
Disposals	-	(388)	(3)	(100)	-	(491)
Exchange differences	-	-	14	(16)	-	(2)
End of year	742	17,577	16,900	9,913	-	45,132
Net book value						
End of year	647	5,377	9,951	3,861	2,341	22,177
Beginning of year	676	4,826	9,263	3,214	2,622	20,601

13 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

			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**

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

During the year ended December 31, 2019, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment resulted in changes in the estimated useful lives of these assets. The Group considered this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group's profit attributable to the equity holder of the Company for the year ended December 31, 2019 increased by HK$204 million and the equity attributable to the equity holder of the Company as at December 31, 2019 increased by HK$204 million.

14 RIGHT-OF-USE ASSETS

In HK$ million	2019	**2020**
Land and buildings	2,164	**2,183**
Network capacity and equipment	272	**247**
Total	2,436	**2,430**

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 16 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. The Group also subleases certain buildings whose lease terms are for the whole of the remaining term of the head leases and has classified the subleases as finance leases.

Additions to the right-of-use assets during the year ended December 31, 2020 were HK$1,336 million (2019: HK$1,136 million).

During the year ended December 31, 2020, total cash outflow for leases amounted to HK$1,712 million (2019: HK$1,749 million), which included cash outflow for short-term lease expenses amounted to HK$122 million (2019: HK$105 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	2019	**2020**
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	309	**321**
Charge for the year	12	**13**
End of year	321	**334**
Net book value		
End of year	215	**202**
Beginning of year	227	**215**

16 GOODWILL

In HK$ million	2019	**2020**
Cost		
Beginning of year	49,805	**49,814**
Additions upon business combination	5	**43**
Disposal of a subsidiary	-	**(47)**
Exchange differences	4	**6**
End of year	49,814	**49,816**

Impairment tests for CGUs containing goodwill

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

In HK$ million	2019	**2020**
TSS		
- Local telephony and data services	31,698	**31,739**
- Global	1,263	**1,224**
Mobile	16,853	**16,853**
Total	49,814	**49,816**

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 2020 were as follows:

	2019				**2020**			
	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%	**1%**	**1%**	**1%**	**8%**
- Global	1%	2%	3%	13%	**1%**	**3%**	**3%**	**13%**
Mobile	3%	2%	2%	11%	**3%**	**3%**	**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.

17 INTANGIBLE ASSETS

In HK$ million	Trademarks	Carrier licences	2019 Customer base	Software	Total
Cost					
Beginning of year	1,859	4,552	2,764	4,500	13,675
Additions	-	421	-	2,132	2,553
Write-off	-	(101)	-	-	(101)
Exchange differences	1	-	-	-	1
End of year	1,860	4,872	2,764	6,632	16,128
Accumulated amortization					
Beginning of year	567	1,301	2,151	965	4,984
Charge for the year	90	412	187	437	1,126
Write-off	-	(101)	-	-	(101)
Exchange differences	-	-	1	-	1
End of year	657	1,612	2,339	1,402	6,010
Net book value					
End of year	1,203	3,260	425	5,230	10,118
Beginning of year	1,292	3,251	613	3,535	8,691

17 INTANGIBLE ASSETS *(CONTINUED)*

	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**

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

As at December 31, 2019 and 2020, 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	2019	**2020**
Share of net assets of associates	272	**278**
Loans due from associates, net	233	**8**
Provision for impairment	(296)	**(75)**
	209	**211**
Investments at cost, unlisted shares	353	**387**

During the year ended December 31, 2020, no provision for impairment was recognized in the consolidated income statement (2019: nil).

18 INTERESTS IN ASSOCIATES *(CONTINUED)*

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

Pursuant to the subscription agreement and the shareholders' agreement, both dated March 27, 2019, for the formation of a joint venture to undertake the business of operating a virtual bank in Hong Kong, the Group subscribed for 15% of the total issued share capital of Mox Bank Limited (formerly known as SC Digital Solutions Limited), a company incorporated in Hong Kong, for an aggregate price of HK$242 million during the year ended December 31, 2019. Mox Bank Limited is licensed by the Hong Kong Monetary Authority to operate a virtual bank in Hong Kong.

As at December 31, 2019, loans due from associates comprised certain unsecured loans totaling HK$340 million which bear interest at 3% per annum and are repayable within 1 year, and a secured loan amounted to HK$6 million, which bears interest at 8% per annum and is repayable within 1 year. As at December 31, 2020, such balance comprised a secured loan amounted to HK$8 million, which bears interest at 8% per annum and is repayable within 1 year. These loans are considered as equity in nature for which full provision for impairment has been made as at December 31, 2019 and 2020.

a. As at December 31, 2019 and 2020, the Group considered that there were no principal associates.

b. Contingent liabilities in respect of associates

The Group's contingent liabilities relating to its associates are disclosed in note 36. As at December 31, 2020, the Group's share of the contingent liabilities of an associate was HK$3 million (2019: nil).

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

For the year ended December 31, 2020, 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$68 million (2019: HK$33 million), nil (2019: nil) and HK$68 million (2019: HK$33 million), respectively.

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

As at December 31, 2020, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK$211 million (2019: HK$209 million).

During the year ended December 31, 2020, the Group did not have any unrecognized share of losses of associates (2019: HK$3 million). As at December 31, 2020, there was no accumulated share of losses of associates unrecognized by the Group (2019: HK$10 million).

19 INTERESTS IN JOINT VENTURES

In HK$ million	2019	**2020**
Share of net assets of joint ventures	158	**142**
Loan due from a joint venture	337	**296**
	495	**438**
Investments at cost, unlisted shares	272	**272**

As at December 31, 2020, 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$296 million (2019: HK$337 million) bears interest at HIBOR plus 3% per annum (2019: 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, 2020 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, 2020, the Group's commitments in respect of joint ventures are as follows:

In HK$ million	2019	**2020**
The Group's commitments to provide funding	59	**29**
The Group's share of joint ventures' capital commitments authorized and contracted for acquisition of property, plant and equipment	12	**6**
The Group's share of joint ventures' other commitments	22	**24**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2020, the Group had no share of contingent liabilities related to the joint ventures (2019: 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, 2019	**2020**
Non-current assets	801	**698**
Current assets		
Cash and cash equivalents	6	**13**
Other current assets (excluding cash and cash equivalents)	31	**27**
Total current assets	37	**40**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(323)	**(320)**
Other current liabilities (including trade payables, accruals and other payables)	(72)	**(60)**
Total current liabilities	(395)	**(380)**
Non-current liabilities		
Financial liabilities	(494)	**(419)**
Other non-current liabilities	(33)	**(33)**
Total non-current liabilities	(527)	**(452)**
Net liabilities	(84)	**(94)**
Equity attributable to equity holders	(84)	**(94)**

In HK$ million	For the year ended December 31, 2019	**2020**
Revenue	255	**236**
Depreciation and amortization	(97)	**(94)**
Interest expense	(41)	**(30)**
Profit before income tax	1	**2**
Income tax	(11)	**(12)**
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, 2020, 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$14 million (2019: HK$16 million), HK$3 million (2019: other comprehensive loss of HK$2 million) and HK$11 million (2019: HK$18 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	2019	**2020**
Net liabilities		
Beginning of year	(74)	**(84)**
Loss and total comprehensive loss for the year	(10)	**(10)**
End of year	(84)	**(94)**
Interest in a joint venture	50%	**50%**
	(42)	**(47)**
Loan due from a joint venture	337	**296**
Carrying amount	295	**249**

As at December 31, 2020, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK$189 million (2019: HK$200 million).

During the year ended December 31, 2020, the Group did not have any unrecognized share of losses of joint ventures (2019: nil). As at December 31, 2020, there was no accumulated share of losses of joint ventures unrecognized by the Group (2019: nil).

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK$ million	2019	**2020**
Unlisted securities		
Beginning of year	77	**124**
Additions	47	**-**
End of year	124	**124**

As at December 31, 2020, financial assets at FVOCI comprised unlisted equity investments which are held for strategic purposes (2019: same).

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2019	**2020**
Listed securities	26	**72**
Less: securities held for employee share award schemes to be vested within one year classified as current assets	(25)	**(31)**
Listed securities (non-current)	1	**41**
Unlisted securities (non-current)	31	**31**
Total non-current portion	32	**72**

Financial assets at FVPL mainly comprise:

- debt instrument that does not qualify for measurement either at amortized cost or at FVOCI; and
- 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.
- 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, 2020, there were no additions of unlisted securities recognized as financial assets at FVPL (2019: HK$31 million).

22 INTERESTS IN SUBSIDIARIES

a. Particulars of the principal subsidiaries of the Company as at December 31, 2020 are as follows:

Company name	Place of incorporation/ operations	Amount of issued capital/ registered capital	Interest held by the Company Directly	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	GBP1	-	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, 2020 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$60,956,485.64	-	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 call 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, 2020 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 call 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, 2020.
2 The equity interest held by non-controlling interest is 25% as at December 31, 2020.
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, 2020 was HK$62 million (2019: HK$58 million), of which HK$54 million (2019: HK$56 million) was mainly attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

23 OTHER NON-CURRENT ASSETS

In HK$ million	2019	**2020**
Prepayments	709	**764**
Deposits	203	**154**
Others	194	**158**
	1,106	**1,076**

24 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	2019	**2020**
Purchased parts and materials	414	**467**
Finished goods	318	**293**
Consumable inventories	71	**60**
	803	**820**

b. Prepayments, deposits and other current assets

In HK$ million	2019	**2020**
Prepayments	565	**826**
Deposits	254	**314**
Other current assets	990	**1,065**
	1,809	**2,205**

As at December 31, 2020, included in prepayments were prepaid programme costs of HK$190 million (2019: nil).

c. Trade receivables, net

In HK$ million	2019	**2020**
Trade receivables *(note i)*	3,743	**3,448**
Less: loss allowance *(note ii)*	(143)	**(195)**
Trade receivables, net	3,600	**3,253**

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, 2020, included in trade receivables, net were amounts due from related parties of HK$21 million (2019: HK$36 million).

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

In HK$ million	2019	**2020**
1 - 30 days	2,594	**2,043**
31 - 60 days	346	**455**
61 - 90 days	272	**274**
91 - 120 days	98	**106**
Over 120 days	433	**570**
	3,743	**3,448**

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, 2020 was determined as follows:

Expected credit loss rate	2019	**2020**
Current	1%	**1%**
1 - 120 days past due	3%	**5%**
Over 120 days past due	26%	**36%**

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

In HK$ million	2019	**2020**
Beginning of year	135	**143**
Net impairment loss recognized	222	**256**
Uncollectible amounts written off	(214)	**(204)**
End of year	143	**195**

d. Restricted cash

As at December 31, 2020, cash balance of HK$107 million (2019: HK$115 million) has been received from and restricted for the use of certain customers.

e. Short-term borrowings

In HK$ million	2019	**2020**
Bank borrowings	-	**1,552**
Secured	-	**-**
Unsecured	-	**1,552**

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

f. Trade payables

As at December 31, 2020, included in trade payables were amounts due to related parties of HK$28 million (2019: HK$12 million).

25 LONG-TERM BORROWINGS

In HK$ million	2019	**2020**
Repayable within a period		
- over one year, but not exceeding two years	5,202	**2,640**
- over two years, but not exceeding five years	17,619	**24,283**
- over five years	17,537	**13,796**
	40,358	**40,719**
Representing:		
US$500 million 3.75% guaranteed notes due 2023 *(note a)*	3,819	**3,824**
US$300 million zero coupon guaranteed notes due 2030 *(note b)*	2,324	**2,314**
US$500 million 3.625% guaranteed notes due 2025 *(note c)*	3,862	**3,850**
EUR200 million 1.65% guaranteed notes due 2027 *(note d)*	1,713	**1,878**
US$750 million 3.00% guaranteed notes due 2026 *(note e)*	5,812	**5,789**
US$500 million 3.25% guaranteed notes due 2029 *(note f)*	3,826	**3,815**
Bank borrowings *(note g)*	19,002	**19,249**
	40,358	**40,719**
Secured	-	**-**
Unsecured	40,358	**40,719**

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.

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.

25 LONG-TERM BORROWINGS *(CONTINUED)*

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	2019	**2020**
Non-current assets		
Cross currency swap contracts – cash flow hedges for foreign currency risk *(note a)*	240	**214**
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	44	**-**
	284	**214**
Current assets		
Interest rate swap contracts – cash flow hedges for interest rate risk *(note b)*	6	**-**
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)*	(12)	**(37)**
Interest rate swap contract – cash flow hedge for interest rate risk *(note b)*	(26)	**(91)**
	(38)	**(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:

	2019	**2020**
Net carrying amount (assets)	HK$228 million	**HK$177 million**
Notional amount	EUR200 million and US$2,720 million	**EUR200 million and US$2,220 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$293 million	**(HK$210 million)**
Change# in value of the hedged items during the year	(HK$245 million)	**HK$212 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:

	2019	**2020**
Net carrying amount (assets/(liabilities))	HK$24 million	**(HK$112 million)**
Notional amount	HK$6,370 million	**HK$4,450 million**
Maturity date	August 2020 to March 2023	**March 2021 to March 2023**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instruments during the year	HK$19 million	**(HK$100 million)**
Change# in value of the hedged items during the year	(HK$12 million)	**HK$96 million**
Weighted average receive leg/pay leg interest ratio	1.15	**0.61**

* 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, 2019	(6)	35	29
Cash flow hedges:			
- effective portion of changes in fair value	245	12	257
- transfer from equity to consolidated income statement	152	-	152
As at December 31, 2019 and 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	**135**	**(54)**	**81**

In HK$ million	Cash flow hedges for foreign currency risk
Costs of hedging reserve	
As at January 1, 2019	(169)
Costs of hedging	11
As at December 31, 2019 and January 1, 2020	**(158)**
Cash flow hedges:	
- transfer from equity to consolidated income statement	**7**
Costs of hedging	**181**
As at December 31, 2020	**30**

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$8 million (2019: HK$11 million) were utilized during the year ended December 31, 2020 to reduce contributions and no forfeited contribution (2019: nil) was available as at December 31, 2020.

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 (the "2011-2021 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 and the 2011-2021 Option Scheme since their adoption and up to and including December 31, 2020.

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 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, 2020, share-based compensation expenses in respect of the PCCW Share Award Schemes of HK$19 million (2019: HK$20 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, 2020, share-based compensation expenses in respect of the Share Stapled Units Award Schemes of HK$20 million (2019: HK$22 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 by the Group under the PCCW Share Award Schemes and the Share Stapled Units held under the Share Stapled Units Award Schemes

	Number of PCCW Shares	
	2019	**2020**
PCCW Purchase Scheme:		
Beginning of year	366	**1,081,428**
Purchase from the market by the trustee at weighted average market price of HK$4.72 (2019: HK$4.56) per PCCW Share	2,155,000	**542,000**
PCCW Shares vested	(1,073,938)	**(1,080,909)**
End of year	1,081,428	**542,519**
PCCW Subscription Scheme:		
Beginning of year	4,476,981	**1,797,145**
PCCW Shares obtained	-	**7,500,000**
PCCW Shares vested	(2,679,836)	**(2,754,506)**
End of year	1,797,145	**6,542,639**

	Number of Share Stapled Units	
	2019	**2020**
HKT Share Stapled Units Purchase Scheme:		
Beginning of year	245	**1,227,922**
Purchase from the market by the trustee at weighted average market price of HK$11.56 (2019: HK$12.45) per Share Stapled Unit	3,086,000	**379,000**
Share Stapled Units vested	(1,858,323)	**(1,194,672)**
End of year	1,227,922	**412,250**
HKT Share Stapled Units Subscription Scheme:		
Beginning of year	-	**-**
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)**
End of year	-	**3,438,886**

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

			2019				
			Number of PCCW Shares/Share Stapled Units				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2019	Awarded	Forfeited	Vested	At December 31, 2019
PCCW Purchase Scheme (PCCW Shares)							
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	539,077	-	(3,595)	(535,482)	-
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	538,456	-	-	(538,456)	-
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
Total			1,615,977	1,084,922	(3,595)	(1,073,938)	1,623,366
Weighted average fair value on the date of award (HK$)			4.64	4.74	4.60	4.63	4.71
PCCW Subscription Scheme (PCCW Shares)							
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,303,748	-	(15,161)	(1,288,587)	-
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	1,407,350	-	(16,101)	(1,391,249)	-
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	1,406,388	-	(49,514)	-	1,356,874
April 17, 2019	April 17, 2019 to April 17, 2020	4.74	-	1,434,666	(40,738)	-	1,393,928
April 17, 2019	April 17, 2019 to April 17, 2021	4.74	-	1,433,531	(40,681)	-	1,392,850
Total			4,117,486	2,868,197	(162,195)	(2,679,836)	4,143,652
Weighted average fair value on the date of award (HK$)			4.64	4.74	4.69	4.63	4.71
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	840,167	-	(8,539)	(831,628)	-
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	904,158	-	(7,463)	(896,695)	-
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	903,139	-	(22,920)	-	880,219
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	100,000	-	-	(100,000)	-
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, 2019	10.34	15,000	-	-	(15,000)	-
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, 2019	10.66	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
Total			2,907,464	417,685	(38,922)	(1,858,323)	1,427,904
Weighted average fair value on the date of award (HK$)			10.01	12.38	9.96	10.02	10.70
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)							
April 17, 2019	April 17, 2019 to April 17, 2020	12.38	-	569,169	(15,718)	-	553,451
April 17, 2019	April 17, 2019 to April 17, 2021	12.38	-	568,030	(15,664)	-	552,366
Total			-	1,137,199	(31,382)	-	1,105,817
Weighted average fair value on the date of award (HK$)			-	12.38	12.38	-	12.38

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 PCCW Shares				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2020	Awarded	Forfeited	Vested	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$**	**At January 1, 2020**	**Awarded**	**Forfeited**	**Vested**	**At December 31, 2020**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 10, 2018	April 10, 2018 to April 10, 2020	**9.94**	**880,219**	**-**	**(9,393)**	**(870,826)**	**-**
May 4, 2018	May 4, 2018 to April 10, 2020	**10.40**	**100,000**	**-**	**-**	**(100,000)**	**-**
October 5, 2018	October 5, 2018 to October 5, 2020	**10.34**	**15,000**	**-**	**(15,000)**	**-**	**-**
November 5, 2018	November 5, 2018 to November 5, 2020	**10.66**	**15,000**	**-**	**-**	**(15,000)**	**-**
April 17, 2019	April 17, 2019 to April 17, 2020	**12.38**	**208,846**	**-**	**-**	**(208,846)**	**-**
April 17, 2019	April 17, 2019 to April 17, 2021	**12.38**	**208,839**	**-**	**-**	**-**	**208,839**
April 16, 2020	April 16, 2020 to April 16, 2021	**11.86**	**-**	**202,686**	**-**	**-**	**202,686**
April 16, 2020	April 16, 2020 to April 16, 2022	**11.86**	**-**	**202,676**	**-**	**-**	**202,676**
Total			**1,427,904**	**405,362**	**(24,393)**	**(1,194,672)**	**614,201**
Weighted average fair value on the date of award (HK$)			**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**

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:

	2019	**2020**
PCCW Purchase Scheme (PCCW Shares)	0.62 year	**0.62 year**
PCCW Subscription Scheme (PCCW Shares)	0.63 year	**0.64 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.44 year	**0.62 year**
HKT Share Stapled Units Subscription Scheme (Share Stapled Units)	0.80 year	**0.64 year**

28 SHARE CAPITAL

	2019		**2020**	
	Number of shares	Nominal value HK$ million	**Number of shares**	**Nominal value HK$ million**
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	636,000,013	4,961	**636,000,019**	**4,961**
Issued during the year *(note a)*	6	-	**2**	**-**
End of year	636,000,019	4,961	**636,000,021**	**4,961**

a. During the year ended December 31, 2020, the Company issued two (2019: six) ordinary shares of US$1 each to the sole shareholder of the Company at a premium of approximately HK$2,020 million (2019: HK$354 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
	2019								
At January 1, 2019	22,004	28	(695)	95	29	(169)	26	3,893	25,211
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	5,091	5,091
Other comprehensive income									
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	-	-	-	2	-	-	-	-	2
Cash flow hedges:									
- effective portion of changes in fair value	-	-	-	-	257	-	-	-	257
- transfer from equity to consolidated income statement	-	-	-	-	152	-	-	-	152
Costs of hedging	-	-	-	-	-	11	-	-	11
Total comprehensive income for the year	-	-	-	2	409	11	-	5,091	5,513
Transactions with equity holder									
Issue of ordinary shares *(note 28(a))*	354	-	-	-	-	-	-	-	354
Dividend paid in respect of the previous year *(note 12)*	-	-	-	-	-	-	-	(2,966)	(2,966)
Interim dividend declared and paid in respect of the current year *(note 12)*	-	-	-	-	-	-	-	(2,272)	(2,272)
Total contributions by and distributions to equity holder	354	-	-	-	-	-	-	(5,238)	(4,884)
Change in ownership interests in a subsidiary that does not result in a loss of control	-	-	-	-	-	-	-	(19)	(19)
Total change in ownership interests in a subsidiary that does not result in a loss of control	-	-	-	-	-	-	-	(19)	(19)
Total transactions with equity holder	354	-	-	-	-	-	-	(5,257)	(4,903)
At December 31, 2019	22,358	28	(695)	97	438	(158)	26	3,727	25,821

29 RESERVES *(CONTINUED)*

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				
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)
At December 31, 2020	24,378	28	(695)	172	81	30	88	3,757	27,839

30 DEFERRED INCOME TAX

As at December 31, 2020, deferred income tax liabilities/(assets) represent:

In HK$ million	2019	**2020**
Deferred income tax assets	(410)	**(841)**
Deferred income tax liabilities	3,874	**4,253**
	3,464	**3,412**

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

	2019			
In HK$ million	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	3,417	(485)	(4)	2,928
Charged to the consolidated income statement *(note 11(a))*	481	55	-	536
End of year	3,898	(430)	(4)	3,464

	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**

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, 2020, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$4,635 million (2019: HK$2,377 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$172 million (2019: HK$84 million) and HK$37 million (2019: HK$253 million) will expire within 1 to 5 years and after 5 years from December 31, 2020 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, 2020, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	2019 Present value of the minimum annual fees	2019 Interest expense relating to future periods	2019 Total minimum annual fees	**2020 Present value of the minimum annual fees**	**2020 Interest expense relating to future periods**	**2020 Total minimum annual fees**
Payable within a period						
– not exceeding one year	195	14	209	**215**	**7**	**222**
– over one year, but not exceeding two years	145	25	170	**88**	**6**	**94**
– over two years, but not exceeding five years	192	42	234	**210**	**25**	**235**
– over five years	190	29	219	**329**	**86**	**415**
	722	110	832	**842**	**124**	**966**
Less: amounts payable within one year included under current liabilities	(195)	(14)	(209)	**(215)**	**(7)**	**(222)**
Non-current portion	527	96	623	**627**	**117**	**744**

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	2019	**2020**
Profit before income tax	6,124	**6,087**
Adjustments for:		
Other gains, net	(1)	**(359)**
Finance costs, net	1,523	**1,384**
Loss/(Gain) on disposal of property, plant and equipment, net	2	**(2)**
Write-back of provision for inventory obsolescence, net	(2)	**(16)**
Impairment loss for trade receivables	222	**256**
Depreciation of property, plant and equipment	1,150	**1,118**
Depreciation of right-of-use assets	1,493	**1,477**
Amortization of land lease premium – interests in leasehold land	12	**13**
Amortization of intangible assets	1,126	**1,327**
Amortization of fulfillment costs	489	**481**
Amortization of customer acquisition costs	851	**925**
Share of results of associates	33	**68**
Share of results of joint ventures	21	**19**
Share-based compensation expenses	42	**39**
Increase in PCCW Shares and Share Stapled Units under share award schemes	(48)	**(55)**
Decrease/(Increase) in operating assets		
- inventories	279	**44**
- trade receivables, prepayments, deposits and other current assets	120	**100**
- contract assets	3	**(101)**
- amounts due from related companies	(13)	**16**
- restricted cash	(27)	**8**
- fulfillment costs	(495)	**(517)**
- customer acquisition costs	(811)	**(851)**
- other non-current assets	(92)	**10**
Increase/(Decrease) in operating liabilities		
- trade payables	555	**1,596**
- accruals and other payables	(728)	**(290)**
- amounts due to fellow subsidiaries	(402)	**(1,901)**
- amount due to a related company	-	**9**
- advances from customers	25	**(56)**
- contract liabilities	(63)	**78**
- other long-term liabilities	(3)	**(13)**
CASH GENERATED FROM OPERATIONS	11,385	**10,894**
Interest received	35	**22**
Income tax paid, net of tax refund		
- Hong Kong profits tax paid*	(175)	**(447)**
- overseas profits tax paid	(10)	**(21)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	11,235	**10,448**

* As at December 31, 2019 and 2020, certain subsidiaries of the Group had not yet received the Hong Kong profits tax assessments for the tax assessment year 2018/19 and/or 2019/20, 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:

	2019						
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, 2019	(10)	261	40,169	4	9,061	3,193	52,678
Cash flows in financing activities							
New borrowings raised	-	(8)	12,956	-	-	-	12,948
Finance costs (paid)/received	-	(1,148)	-	220	-	-	(928)
Repayments of borrowings	-	-	(12,570)	-	-	-	(12,570)
Payment for lease liabilities (including interest)	-	-	-	-	-	(1,644)	(1,644)
Movement in amounts due to fellow subsidiaries and the immediate holding company	-	-	-	-	1,193	-	1,193
Classified as cash flows in investing activities							
Loan repayment in relation to licence fee *(note 34(b)(i))*	-	-	(130)	-	-	-	(130)
Cash flows in operating activities	-	-	-	-	(402)	-	(402)
Non-cash movements	(10)	1,146	(67)	(476)	151	1,213	1,957
As at December 31, 2019	(20)	251	40,358	(252)	10,003	2,762	53,102

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)*

	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)**
Classified as cash flows in investing activities							
Loan repayment in relation to licence fee *(note 34(b)(i))*	**-**	**-**	**(130)**	**-**	**-**	**-**	**(130)**
Cash flow 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)*

c. Analysis of cash and cash equivalents

In HK$ million	2019	**2020**
Total cash and bank balances	3,017	**2,736**
Less: short-term deposits	(486)	**(538)**
Less: restricted cash	(115)	**(107)**
Cash and cash equivalents as at December 31,	2,416	**2,091**

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:

	2019				
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	-	-	32	-	32
Derivative financial instruments	-	-	-	284	284
Other non-current assets (excluding prepayments)	397	-	-	-	397
	397	124	32	284	837
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	1,244	-	-	-	1,244
Trade receivables, net	3,600	-	-	-	3,600
Amounts due from related companies	95	-	-	-	95
Financial assets at FVPL	-	-	25	-	25
Derivative financial instruments	-	-	-	6	6
Restricted cash	115	-	-	-	115
Short-term deposits	486	-	-	-	486
Cash and cash equivalents	2,416	-	-	-	2,416
	7,956	-	25	6	7,987
Total	8,353	124	57	290	8,824

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

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

	2019		
In HK$ million	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	-	(2,342)	(2,342)
Accruals and other payables	-	(3,883)	(3,883)
Carrier licence fee liabilities	-	(195)	(195)
Amounts due to fellow subsidiaries and the immediate holding company	-	(10,003)	(10,003)
Advances from customers	-	(291)	(291)
Lease liabilities	-	(1,065)	(1,065)
	-	(17,779)	(17,779)
Non-current liabilities			
Long-term borrowings	-	(40,358)	(40,358)
Derivative financial instruments*	(38)	-	(38)
Carrier licence fee liabilities	-	(527)	(527)
Lease liabilities	-	(1,697)	(1,697)
Other long-term liabilities	-	(1,197)	(1,197)
	(38)	(43,779)	(43,817)
Total	(38)	(61,558)	(61,596)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

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

	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)**

* As at December 31, 2020, derivative financial instruments classified as non-current liabilities of HK$36 million (2019: HK$4 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$470 million (approximately HK$3,686 million) (2019: 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 (2019: 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, 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, 2019 and 2020, 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, 2019 and 2020 and the Group made no write-off or provision for these contract assets during the years ended December 31, 2019 and 2020.

Investments in debt instruments, amounts due from related companies, lease receivables 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, 2019 and 2020, investments in debt instruments, amounts due from related companies, lease receivables 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:

			2019			
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						
Trade payables	(2,342)	-	-	-	(2,342)	(2,342)
Accruals and other payables	(3,883)	-	-	-	(3,883)	(3,883)
Carrier licence fee liabilities	(209)	-	-	-	(209)	(195)
Amounts due to fellow subsidiaries and the immediate holding company	(10,003)	-	-	-	(10,003)	(10,003)
Advances from customers	(291)	-	-	-	(291)	(291)
Lease liabilities	(1,119)	-	-	-	(1,119)	(1,065)
	(17,847)	-	-	-	(17,847)	(17,779)
Non-current liabilities						
Long-term borrowings *(note (i))*	(985)	(6,118)	(19,959)	(20,865)	(47,927)	(40,358)
Derivative financial instruments *(note (ii))*	28	27	(72)	(28)	(45)	(38)
Carrier licence fee liabilities	-	(170)	(234)	(219)	(623)	(527)
Lease liabilities	-	(696)	(865)	(250)	(1,811)	(1,697)
Other long-term liabilities *(note (iii))*	(15)	(2)	(767)	(1,035)	(1,819)	(1,197)
	(972)	(6,959)	(21,897)	(22,397)	(52,225)	(43,817)
Total	(18,819)	(6,959)	(21,897)	(22,397)	(70,072)	(61,596)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

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
	2020					
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)**	**(16,718)**	**(46,607)**	**(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)**	**(975)**	**(1,838)**	**(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)**

Notes:

(i) As at December 31, 2020, bank borrowings of HK$1,430 million (2019: HK$1,560 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, 2020, derivative financial instruments included HK$49 million (2019: HK$21 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 (2019: HK$1,000 million).

(iii) As at December 31, 2020, other long-term liabilities included HK$378 million (2019: HK$304 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) (2019: EUR200 million (approximately HK$1,665 million)) and included HK$379 million (2019: HK$211 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) (2019: 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, 2019 and 2020, 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, 2020 with an aggregate notional contract amount of US$2,220 million (approximately HK$17,301 million) (2019: US$2,720 million (approximately HK$21,178 million)) and EUR200 million (approximately HK$1,665 million) (2019: 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:

In HK$ million	2019 United States Dollars	2019 Euro	**2020 United States Dollars**	**2020 Euro**
Trade receivables	1,329	86	**1,199**	**53**
Cash and cash equivalents	715	58	**677**	**40**
Trade payables	(1,542)	(67)	**(2,739)**	**(67)**
Advances from customers	(18)	(2)	**(16)**	**(1)**
Lease liabilities	(107)	(14)	**(89)**	**(8)**
Long-term borrowings	(19,643)	(1,713)	**(19,592)**	**(1,878)**
Gross exposure arising from net monetary liabilities	(19,266)	(1,652)	**(20,560)**	**(1,861)**
Net monetary liabilities/(assets) denominated in respective entities' functional currencies	83	(56)	**(159)**	**(7)**
Borrowings with hedging instruments	19,643	1,713	**19,592**	**1,878**
Overall net exposure	460	5	**(1,127)**	**10**

As at December 31, 2020, if the Hong Kong dollar had weakened/strengthened by 1% (2019: 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$9 million (2019: increased/decreased by approximately HK$4 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, 2020 would have collectively debited/credited by approximately HK$157 million (2019: HK$196 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, 2020, if the Hong Kong dollar had weakened/strengthened by 5% (2019: 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 (2019: 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, 2020 would have collectively debited/credited by approximately HK$94 million (2019: HK$86 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.

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, 2019 and 2020.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

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 amount due to the immediate holding company. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Interest-bearing amount due to the immediate holding company at variable rates exposes the Group to cash flow interest rate risk. 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 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:

	2019		**2020**	
	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	2.34	6,320	**2.46**	**2,927**
Long-term borrowings with hedging instruments	3.74	21,356	**3.74**	**17,620**
Variable rate borrowings and amount due to the immediate holding company:				
Short-term bank borrowings	-	-	**5.68**	**53**
Long-term bank borrowings	2.75	12,682	**1.20**	**16,322**
Amount due to the immediate holding company	2.17	6,960	**1.77**	**4,994**
Total borrowings		47,318		**47,265**

As at December 31, 2020, if the interest rate on variable rate borrowings and amount due to the immediate holding company had increased/decreased by 50 basis points (2019: same), with all other variables held constant, the profit after tax of the Group for the year would have decreased/increased by approximately HK$90 million (2019: HK$82 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 (2019: 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, 2019 and 2020.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

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 recognized stock exchange markets.

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, 2020 except as follows:

In HK$ million	2019 Carrying amount	2019 Fair value	**2020 Carrying amount**	**2020 Fair value**
Long-term borrowings	40,358	40,860	**40,719**	**42,155**

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	2019 Level 1	2019 Level 2	2019 Level 3	2019 Total
Assets				
Financial assets at FVOCI				
- Unlisted securities	-	-	124	124
Financial assets at FVPL				
- Unlisted securities (non-current)	-	-	31	31
- Listed securities (non-current)	1	-	-	1
- Listed securities (current)	25	-	-	25
Derivative financial instruments				
- Non-current	-	284	-	284
- Current	-	6	-	6
Total assets	26	290	155	471
Liabilities				
Derivative financial instruments				
- Non-current	-	(38)	-	(38)

In HK$ million	**2020 Level 1**	**2020 Level 2**	**2020 Level 3**	**2020 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)**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

Instruments included in level 1 comprised PCCW Shares and Share Stapled Units acquired or subscribed under PCCW Share Award Schemes and 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 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, 2020, there was no movement in the instruments included in level 3 (2019: addition of HK$78 million).

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, 2019 and 2020.

There were no material changes in valuation techniques during the years ended December 31, 2019 and 2020.

f. Group's valuation process

The Group performs and monitors the valuations of financial assets 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, 2020, capital commitments authorized and contracted for by nature were as follows:

In HK$ million	2019	**2020**
Investments	239	**169**
Acquisition of property, plant and equipment	1,020	**828**
	1,259	**997**

35 COMMITMENTS *(CONTINUED)*

b. Committed leases not yet commenced

As at December 31, 2020, the total future lease payments for leases committed but not yet commenced were payable as follows:

Land and buildings

In HK$ million	2019	**2020**
Within 1 year	11	**9**
After 1 year but within 5 years	12	**64**
	23	**73**

Network capacity and equipment

In HK$ million	2019	**2020**
Within 1 year	111	**20**
After 1 year but within 5 years	28	**15**
	139	**35**

c. Others

As at December 31, 2020, the Group had other outstanding commitments as follows:

In HK$ million	2019	**2020**
Purchase of rights to broadcast certain TV content	-	**1,547**
Operating expenditure commitments	4,037	**3,455**
	4,037	**5,002**

35 COMMITMENTS *(CONTINUED)*

d. Lease receivables

i. As at December 31, 2020, the maturity analysis of the lease receivables under non-cancellable finance leases is as follows:

In HK$ million	2019	**2020**
Within 1 year	58	**51**
After 1 year but within 2 years	42	**40**
After 2 years but within 3 years	40	**33**
After 3 years but within 4 years	33	**14**
After 4 years but within 5 years	14	**11**
After 5 years	93	**82**
Total contractual undiscounted lease receivables*	280	**231**
Less: interest income relating to future periods	(32)	**(26)**
Carrying amount	248	**205**
Less: amounts receivables within one year included under current assets	(54)	**(47)**
Non-current portion	194	**158**

* The majority of the leases typically run for periods of 2 to 15 years (2019: 3 to 15 years).

ii. As at December 31, 2020, the maturity analysis of the total future minimum lease receipts under non-cancellable operating leases is as follows:

In HK$ million	2019	**2020**
Within 1 year	50	**43**
After 1 year but within 2 years	31	**20**
After 2 years but within 3 years	10	**5**
	91	**68**

The Group leases out properties under operating leases. The majority of the leases typically run for periods of 1 to 15 years (2019: 1 to 15 years). None of the leases include material contingent rentals.

36 CONTINGENT LIABILITIES

In HK$ million	2019	**2020**
Performance guarantees	740	**955**
Guarantees given to banks in respect of credit facilities granted to an associate	52	**-**
Others	11	**18**
	803	**973**

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, 2020 was HK$30,007 million (2019: HK$28,348 million) of which the undrawn facilities amounted to HK$9,069 million (2019: HK$9,190 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, 2020, 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 apps.

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.

38 BUSINESS COMBINATIONS

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:

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.

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**

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)*

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.

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.

c. Acquisition of 北京訊通通信服務有限公司 (Beijing Xun Tong Communications Services Limited*) ("Xun Tong") in 2019

On March 11, 2019, the Group completed the acquisition of 50% equity interests in Xun Tong, a limited liability company established in the PRC. Xun Tong engages in the provision of telecommunications services, internet information services and computer system services. The acquisition aims to facilitate the Group's telecommunications business in the PRC. The aggregate consideration was not material to the Group. Xun Tong is consolidated by the Group as the Group owns more than one half of the voting rights in the board of directors of the company.

* Unofficial company name

39 CHANGE IN OWNERSHIP INTERESTS IN A SUBSIDIARY WITHOUT A LOSS OF CONTROL

During the year ended December 31, 2019, the Group acquired the remaining 50% equity interests in a then indirect non-wholly owned subsidiary, 盈環網絡技術（上海）有限公司 (HKT Teleservices (China) Limited*), at an aggregate consideration of RMB7 million (equivalent to approximately HK$8 million). The debit balance of carrying amount of the non-controlling interests on the date of acquisition was HK$11 million. The Group recognized a decrease in equity attributable to the equity holder of the Company of HK$19 million. Immediately after the acquisition, the Group holds the entire equity interests in HKT Teleservices (China) Limited*.

* Unofficial company name

40 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2020

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended standards which are not yet effective for the accounting period ended December 31, 2020 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 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
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, 2020 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.

The selected financial information of Hong Kong Telecommunications (HKT) Limited presented below as at and for the two years ended 31 December 2019 and 31 December 2020 has been extracted from the audited consolidated financial statements of Hong Kong Telecommunications (HKT) Limited for the year ended 31 December 2020.

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	2019	**2020**
Revenue	16,139	**15,608**
Cost of sales	(4,903)	**(5,057)**
General and administrative expenses	(5,452)	**(5,565)**
Other losses, net	-	**(301)**
Finance costs, net	(1,483)	**(1,344)**
Share of results of a joint venture	(5)	**(5)**
Profit before income tax	4,296	**3,336**
Income tax	(599)	**(482)**
Profit for the year	3,697	**2,854**
Profit attributable to:		
Equity holder of the Company	3,696	**2,852**
Non-controlling interest	1	**2**
Profit for the year	3,697	**2,854**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	2019	**2020**
Profit for the year	3,697	**2,854**
Other comprehensive (loss)/income		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	(1)	**4**
Cash flow hedges:		
- effective portion of changes in fair value	257	**(268)**
- transfer from equity to consolidated income statement	152	**(82)**
Costs of hedging	11	**181**
Other comprehensive income/(loss) for the year	419	**(165)**
Total comprehensive income for the year	4,116	**2,689**
Attributable to:		
Equity holder of the Company	4,115	**2,687**
Non-controlling interest	1	**2**
Total comprehensive income for the year	4,116	**2,689**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	2019		
In HK$ million	Attributable to equity holder of the Company	Non-controlling interest	Total equity
At January 1, 2019	11,168	-	11,168
Total comprehensive income for the year			
Profit for the year	3,696	1	3,697
Other comprehensive (loss)/income			
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations	(1)	-	(1)
Cash flow hedges:			
- effective portion of changes in fair value	257	-	257
- transfer from equity to consolidated income statement	152	-	152
Costs of hedging	11	-	11
Other comprehensive income	419	-	419
Total comprehensive income for the year	4,115	1	4,116
Transactions with equity holder			
Final dividend paid in respect of the previous year	(1,900)	-	(1,900)
Interim dividend declared and paid in respect of the current year	(1,560)	-	(1,560)
Total contributions by and distributions to equity holder	(3,460)	-	(3,460)
Acquisition of a subsidiary	-	1	1
Total change in ownership interests in a subsidiary that does not result in a loss of control	-	1	1
Total transactions with equity holder	(3,460)	1	(3,459)
At December 31, 2019	11,823	2	11,825

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020		
In HK$ million	Attributable to equity holder of the Company	Non-controlling interest	Total equity
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	**(268)**	**-**	**(268)**
- transfer from equity to consolidated income statement	**(82)**	**-**	**(82)**
Costs of hedging	**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	**(2,100)**	**-**	**(2,100)**
Interim dividend declared and paid in respect of the current year	**(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)**
At December 31, 2020	**11,060**	**4**	**11,064**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

In HK$ million	2019	**2020**
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	19,680	**21,013**
Right-of-use assets	1,117	**1,088**
Interests in leasehold land	215	**202**
Goodwill	32,630	**32,630**
Intangible assets	8,614	**9,690**
Fulfillment costs	1,342	**1,379**
Customer acquisition costs	346	**352**
Contract assets	65	**105**
Interest in a joint venture	295	**249**
Amount due from a fellow subsidiary	-	**206**
Financial assets at fair value through profit or loss	8	**17**
Derivative financial instruments	284	**214**
Other non-current assets	194	**133**
	64,790	**67,278**
Current assets		
Inventories	517	**544**
Prepayments, deposits and other current assets	1,063	**1,136**
Contract assets	273	**271**
Trade receivables, net	1,504	**1,165**
Amount due from a related company	46	**38**
Amounts due from fellow subsidiaries	9,467	**8,509**
Financial assets at fair value through profit or loss	13	**19**
Derivative financial instruments	6	**-**
Tax recoverable	257	**185**
Short-term deposits	486	**538**
Cash and cash equivalents	1,221	**837**
	14,853	**13,242**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
AS AT DECEMBER 31, 2020

In HK$ million	2019	**2020**
Current liabilities		
Short-term borrowings	-	**(1,499)**
Trade payables	(1,104)	**(2,601)**
Accruals and other payables	(2,331)	**(2,182)**
Derivative financial instruments	-	**(24)**
Carrier licence fee liabilities	(195)	**(215)**
Amounts due to fellow subsidiaries and intermediate holding companies	(16,587)	**(14,041)**
Advances from customers	(113)	**(84)**
Contract liabilities	(584)	**(604)**
Lease liabilities	(557)	**(634)**
	(21,471)	**(21,884)**
Non-current liabilities		
Long-term borrowings	(40,358)	**(40,719)**
Amount due to a fellow subsidiary	-	**(1)**
Derivative financial instruments	(38)	**(128)**
Deferred income tax liabilities	(3,533)	**(3,943)**
Carrier licence fee liabilities	(527)	**(627)**
Contract liabilities	(25)	**(22)**
Lease liabilities	(702)	**(592)**
Other long-term liabilities	(1,164)	**(1,540)**
	(46,347)	**(47,572)**
Net assets	11,825	**11,064**
CAPITAL AND RESERVES		
Share capital	9,945	**9,945**
Reserves	1,878	**1,115**
Equity attributable to equity holder of the Company	11,823	**11,060**
Non-controlling interest	2	**4**
Total equity	11,825	**11,064**

HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

In HK$ million	2019	**2020**
NET CASH GENERATED FROM OPERATING ACTIVITIES	8,481	**7,739**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	4	**3**
Purchases of property, plant and equipment	(2,178)	**(1,983)**
Additions of intangible assets	(2,471)	**(2,393)**
Net outflow of cash and cash equivalents in respect of business combination	(4)	**-**
Investment in a financial asset at fair value through profit or loss	(8)	**-**
Loans to a joint venture	(50)	**(56)**
Repayment of loan from a fellow subsidiary	-	**82**
Cash received from lease receivables	5	**7**
Decrease/(Increase) in short-term deposits with maturity more than three months	37	**(52)**
NET CASH USED IN INVESTING ACTIVITIES	(4,665)	**(4,392)**
FINANCING ACTIVITIES		
New borrowings raised	12,948	**19,460**
Finance costs paid	(928)	**(772)**
Repayments of borrowings	(12,570)	**(17,637)**
Payment for lease liabilities (including interest)	(894)	**(870)**
Movement in balances with fellow subsidiaries and an intermediate holding company	1,197	**(474)**
Dividends paid to equity holder of the Company	(3,460)	**(3,450)**
NET CASH USED IN FINANCING ACTIVITIES	(3,707)	**(3,743)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	109	**(396)**
Exchange differences	(10)	**12**
CASH AND CASH EQUIVALENTS		
Beginning of year	1,122	**1,221**
End of year	1,221	**837**

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