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PCCW Limited
電訊盈科有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The directors (“Directors”) of PCCW Limited (“PCCW” or the “Company”) hereby announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended December 31, 2021.

- Revenue from continuing operations increased 7% to HK\$38,654 million
 - HKT total revenue up 5% to HK\$33,961 million
 - OTT Business revenue up 25% to HK\$1,480 million
 - Free TV & Related Business revenue up 152% to HK\$800 million
 - Solutions Business revenue up 20% to HK\$4,894 million
- EBITDA from continuing operations increased 6% to HK\$12,309 million
 - HKT EBITDA up 2% to HK\$12,733 million
 - OTT Business EBITDA loss narrowed to HK\$23 million
 - Free TV & Related Business EBITDA turned positive to HK\$94 million
 - Solutions Business EBITDA up 31% to HK\$656 million
- Above results reflect the continuing operations of the Company following the divestment of the Data Center Business and deconsolidation of PCPD
- After accounting for the gain from the Data Center Business divestment and impact of the PCPD deconsolidation, consolidated profit attributable to equity holders of the Company for the year was HK\$1,039 million
- Final cash dividend of 27.69 HK cents per ordinary share resulting in full-year cash dividend of 37.05 HK cents per ordinary share, an increase of 15% compared to the prior year

MANAGEMENT REVIEW

The Group registered robust performance across its core businesses of telecommunications, media, and IT solutions services for the year ended December 31, 2021 against the backdrop of a stabilizing environment in Hong Kong and continued expansion of the Group's Media and Solutions Business regionally.

HKT Limited's ("HKT") total revenue increased by 5% to HK\$33,961 million, reflecting continued strong demand for fixed broadband services, the broader 5G adoption by both consumers and enterprises, and robust handset sales. EBITDA increased by 2% to HK\$12,733 million; increased by 5% if adjusted for impact of Employment Support Scheme ("ESS") in 2020. HKT's Telecommunications Services ("TSS") business continued to demonstrate resilience as demand for fast and reliable broadband connectivity and Home Wi-Fi solutions remained strong. Mobile business benefited from the average revenue per user ("ARPU") uplift from new subscriptions and upgrades to our 5G services and customer growth. The Pay TV business, which recorded its first full year as part of HKT, contributed revenue of HK\$2,456 million for the year ended December 31, 2021.

In the Media Business, both over-the-top ("OTT") and Free TV & Related Business continued to show favorable prospects, enlarging their revenue by 25% and 152% respectively. The success of the OTT Business is testimony to its high-quality content, including its Viu Original titles, which have spurred further growth in its monthly active users ("MAUs") and paid subscribers. 2021 was a landmark year for ViuTV, built upon our prior continuous investments in the production of relevant and appealing content. This culminated in the success of MIRROR during the year, which we have also cross leveraged across other parts of the Group. Such positive response from viewers has boosted not only advertising revenue but also in artiste management and content syndication. We believe that this is a successful formula which will provide future growth opportunities for ViuTV. With this enlarged revenue base, the OTT Business is nearing EBITDA breakeven, while the Free TV & Related Business turned EBITDA positive during the year.

The Solutions Business recorded a 20% increase in revenue to HK\$4,894 million due to the successful implementation of mission critical projects for customers during the year ended December 31, 2021. Benefiting from the growth in revenue and enhanced operating efficiencies, EBITDA increased by 31% to HK\$656 million with the margin expanding to 13%.

As a result, the Group's revenue from continuing operations increased by 7% to HK\$38,654 million and EBITDA from continuing operations by 6% to HK\$12,309 million.

Following the divestment of the Group's Hong Kong and Malaysia data center business ("Data Center Business") and deconsolidation of Pacific Century Premium Developments Limited ("PCPD"), both concluded in December 2021, the results reported above reflect only the continuing operations of the Company.

After accounting for the gain from the Data Center Business divestment and impact of the PCPD deconsolidation, the Group recorded consolidated profit attributable to equity holders of the Company for the year of HK\$1,039 million.

The board of Directors (the "Board") has recommended the payment of a final cash dividend of 27.69 HK cents per ordinary share resulting in full-year cash dividend of 37.05 HK cents per ordinary share for the year ended December 31, 2021, an increase of 15% compared to 2020.

OUTLOOK

Viu OTT will strengthen its competitive edge in the direct-to-consumer (“D2C”) market by investing in highly-rated Asian content and Viu Original that are relevant to the audiences in each market in partnership with top local production talents across the region. More than 30 new productions in different genres and languages are expected to be released in 2022. With its growing scale, Viu OTT is nearing EBITDA breakeven.

ViuTV will continue to gauge the interest of the domestic audience and produce quality programs to drive viewership for its TV and digital channels, while further promoting its artistes and event business.

PCCW Solutions is strategically focused in sharpening client engagement, expanding its ecosystem with technology partners and new capabilities, and strengthening its talent pool. It will replicate proven solutions to deepen penetration in Southeast Asia and scale industry-specific expertise to win clients for a strong pipeline and recurrent revenue.

HKT is committed to catering for the connectivity needs of Hong Kong by further building upon its 5G infrastructure and maintaining its robust and reliable broadband service. We will seek to commercialize a great variety of 5G applications in healthcare, property and other sectors, and assist the public’s shift toward the digital lifestyle, thereby contributing to Hong Kong’s development into a smart city.

As year 2022 commenced, the Omicron variant and the social distancing measures re-introduced by the Government as a result have cast new uncertainties on the pace of Hong Kong’s economic recovery and the global outlook. PCCW will remain on guard against any headwinds that may arise from this highly dynamic environment, while identifying and pursuing any viable growth opportunities, with a view to creating long term value for our shareholders.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse)
	H1 ⁶	H2 ⁶	Full Year ⁶	H1 ⁶	H2	Full Year	y-o-y
Continuing operations⁶							
Revenue							
HKT ⁵	14,606	17,783	32,389	15,643	18,318	33,961	5%
HKT (excluding Mobile Product Sales)	13,636	16,144	29,780	14,112	15,919	30,031	1%
Mobile Product Sales	970	1,639	2,609	1,531	2,399	3,930	51%
Now TV Business	1,270	595	1,865	n/a	n/a	n/a	n/a
OTT Business	502	685	1,187	646	834	1,480	25%
Free TV & Related Business	130	187	317	256	544	800	152%
Solutions Business	1,595	2,490	4,085	2,501	2,393	4,894	20%
Eliminations	(1,531)	(2,328)	(3,859)	(1,048)	(1,433)	(2,481)	36%
Consolidated revenue	16,572	19,412	35,984	17,998	20,656	38,654	7%
Cost of sales	(8,399)	(10,790)	(19,189)	(9,804)	(11,465)	(21,269)	(11)%
Operating costs before depreciation, amortization, and gains/(losses) on disposal of property, plant and equipment and right-of-use assets, net	(2,910)	(2,227)	(5,137)	(2,700)	(2,376)	(5,076)	1%
EBITDA¹							
HKT ⁵	5,546	6,981	12,527	5,715	7,018	12,733	2%
Now TV Business	198	82	280	n/a	n/a	n/a	n/a
OTT Business	(81)	(72)	(153)	(20)	(3)	(23)	85%
Free TV & Related Business	(95)	(70)	(165)	(44)	138	94	n/a
Solutions Business	92	410	502	275	381	656	31%
Other Businesses	(248)	(212)	(460)	(237)	(301)	(538)	(17)%
Eliminations	(149)	(724)	(873)	(195)	(418)	(613)	30%
Consolidated EBITDA¹	5,263	6,395	11,658	5,494	6,815	12,309	6%
Consolidated EBITDA¹ Margin	32%	33%	32%	31%	33%	32%	
Depreciation	(1,540)	(1,530)	(3,070)	(1,474)	(1,527)	(3,001)	2%
Amortization	(1,950)	(2,397)	(4,347)	(2,171)	(2,454)	(4,625)	(6)%
Gains/(Losses) on disposal of property, plant and equipment and right-of-use assets, net	-	1	1	(1)	34	33	>500%
Other (losses)/gains, net	(61)	(502)	(563)	17	(62)	(45)	92%
Interest income	40	27	67	27	42	69	3%
Finance costs	(846)	(792)	(1,638)	(687)	(714)	(1,401)	14%
Share of results of associates and joint ventures	(19)	(6)	(25)	(30)	602	572	n/a
Profit before income tax	887	1,196	2,083	1,175	2,736	3,911	88%
Income tax	(367)	(338)	(705)	(436)	(629)	(1,065)	(51)%
Holders of perpetual capital securities	-	-	-	(109)	(117)	(226)	n/a
Non-controlling interests	(857)	(1,054)	(1,911)	(853)	(1,381)	(2,234)	(17)%
Loss attributable to equity holders of the Company from continuing operations*	(337)	(196)	(533)	(223)	(39)	(262)	51%
Consolidated (loss)/profit attributable to equity holders of the Company	(584)	(436)	(1,020)	(315)	1,354	1,039	n/a

* Excluding a fair value adjustment of PCPD of a credit of HK\$648 million upon recognition as an associate

- Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gains/losses on disposal of property, plant and equipment, investment properties, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*
- Note 2 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*
- Note 3 Group capital expenditure includes additions to property, plant and equipment and interests in leasehold land.*
- Note 4 Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. HKT's adjusted funds flow is computed in accordance with the above definition using financial information derived from HKT's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.*
- Note 5 Subsequent to the completion of transfer of the Now TV business to HKT on September 30, 2020, results of the Now TV business are included in the HKT business.*
- Note 6 Results reflect the continuing operations of the Company following the divestment of the Data Center Business and deconsolidation of PCPD. The comparative figures presented were restated to reflect the reclassification between continuing operations and discontinued operations of the Group accordingly.*

HKT⁵

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT Revenue	14,606	17,783	32,389	15,643	18,318	33,961	5%
TSS	10,386	11,971	22,357	10,243	11,569	21,812	(2)%
- Local TSS Services	6,622	8,091	14,713	6,926	7,880	14,806	1%
- International Telecommunications Services	3,764	3,880	7,644	3,317	3,689	7,006	(8)%
Mobile	4,543	5,823	10,366	5,108	6,640	11,748	13%
- Mobile Services	3,573	4,184	7,757	3,577	4,241	7,818	1%
- Mobile Product Sales	970	1,639	2,609	1,531	2,399	3,930	51%
Pay TV	–	647	647	1,231	1,225	2,456	280%
Other Businesses	155	210	365	408	464	872	139%
Eliminations	(478)	(868)	(1,346)	(1,347)	(1,580)	(2,927)	(117)%
HKT EBITDA¹	5,546	6,981	12,527	5,715	7,018	12,733	2%
HKT EBITDA¹ margin	38%	39%	39%	37%	38%	37%	
HKT Adjusted Funds Flow⁴	2,280	3,104	5,384	2,326	3,187	5,513	2%

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

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

HKT⁵ (CONTINUED)

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

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

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

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

Adjusted funds flow for the year ended December 31, 2021 rose to HK\$5,513 million, an increase of 2% over the previous year. Annual adjusted funds flow per Share Stapled Unit was 72.77 HK cents.

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

For a more detailed review of the performance of HKT, including detailed reconciliation between HKT's EBITDA and adjusted funds flow as well as HKT's EBITDA and HKT's profit before income tax, please refer to its 2021 annual results announcement released on February 24, 2022.

OTT Business

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
OTT Business Revenue	502	685	1,187	646	834	1,480	25%
OTT Business EBITDA¹	(81)	(72)	(153)	(20)	(3)	(23)	85%

The OTT Business recorded another year of healthy growth, with a 25% increase in revenue to HK\$1,480 million for the year ended December 31, 2021. This was driven primarily by growth in our video streaming service Viu, which achieved a 37% revenue growth to HK\$1,111 million.

Viu's viewer base continued to expand during the year experiencing a 30% growth in MAUs to 58.6 million. While Thailand and Indonesia remained our largest markets, significant growth was experienced in the Philippines which is also becoming a sizeable contributor.

With home entertainment being the norm during the year, Viu has been focused on driving its paid subscriber growth and increasing share in the growing digital advertising market, by leveraging its high quality content offering including Viu Original titles which are developed in partnership with top local production talents across the region. As a result, Viu recorded a significant increase of 58% in the number of paid subscribers, from 5.3 million to 8.4 million by the end of 2021. Viu Original titles released in 2021 such as "Now We Are Breaking Up" and "Lovers of the Red Sky" featuring A-list Korean stars were well received among Viu-ers. High viewer engagement was demonstrated by the more than 90% and 200% increase in the number of video views and video minutes respectively generated from Viu Original titles compared to 2020.

The OTT Business also signed distribution agreements for selected Viu Original titles with more than 20 OTT, pay TV and free TV platforms in various markets around the world to further monetize its content and potential.

With its expanded revenue base, the OTT Business narrowed its EBITDA loss to HK\$23 million for the year ended December 31, 2021 as compared to a loss of HK\$153 million a year ago and is nearing EBITDA breakeven with its growing scale.

Looking ahead, over 30 new Viu Original productions will be released in 2022 under the newly created group, Viu Original Studio, which has been established to help expand our original content assets and intellectual properties with regional and global appeal. Viu Original titles in local languages will cater to viewers in Thailand, Malaysia, the Philippines and Indonesia, while pan-regional titles in Korean and Chinese will further solidify Viu's position as the leading OTT video streaming service across the region.

Free TV & Related Business

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Free TV & Related Business Revenue	130	187	317	256	544	800	152%
Free TV & Related Business EBITDA¹	(95)	(70)	(165)	(44)	138	94	n/a

Free TV and Related Business revenue grew by 152% to HK\$800 million for the year ended December 31, 2021 with advertising revenue more than doubling to HK\$615 million.

A key factor in driving revenue growth was the positive response to our relevant and appealing content which included scripted dramas such as “Ink At Tai Ping” and reality shows led by the “King Maker” series. The quality of our content was further reflected in our successful distribution of over 3,100 hours of production to 29 markets across Asia and the Americas.

Riding on the success of MIRROR as well as other up and coming artistes, our artiste management and event business flourished, with our artistes promoted 13 of the top 50 advertisers in Q3 2021 including leading names such as HSBC, Samsung and McDonald’s*. As a result, revenue from artiste management and event business increased almost tenfold compared to the previous year.

With its growing audience and attractive viewer demographics, ViuTV was selected by more than 680 advertisers in 2021 to promote their products and services, of which over half were new to ViuTV. ViuTV’s advertisers now span a diverse range of industries from financial to electrical appliances as well as healthcare.

The enlarged and diversified revenue base helped the Free TV & Related Business turn to positive EBITDA of HK\$94 million for the year ended December 31, 2021.

To sustain the growth momentum, the Free TV & Related Business will continue developing quality content and find further ways to promote existing artistes and groom new talent, such as the recently debuted girl group COLLAR.

* Source: Hong Kong Adspend Report Q3 2021, Admango (accessed on 30 Nov 2021)

Solutions Business

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1 ⁶	H2 ⁶	Full Year ⁶	H1 ⁶	H2	Full Year	
Solutions Business Revenue	1,595	2,490	4,085	2,501	2,393	4,894	20%
Solutions Business EBITDA¹	92	410	502	275	381	656	31%
<i>Solutions Business EBITDA¹ margin</i>	<i>6%</i>	<i>16%</i>	<i>12%</i>	<i>11%</i>	<i>16%</i>	<i>13%</i>	

The Solutions Business recorded an impressive 20% increase in revenue to HK\$4,894 million for the year ended December 31, 2021. This growth reflected the completion of numerous mission critical projects for customers in Hong Kong as well as in overseas markets. In Hong Kong, the Solutions Business successfully implemented a private cloud solution for a banking and finance sector customer while, on the international front, it provided crucial IT managed services to 22 government agencies in Singapore.

To support further growth and achieve margin expansion, the Solutions Business focused on a number of initiatives during the year. Riding on its market leadership in Hong Kong, the Solutions Business leveraged in-house expertise, particularly in the public sector and telecom verticals, to win contracts from customers in overseas markets as well as to reap scale benefits. To further enhance efficiencies, the Solutions Business increased its offshore delivery resources and local market presence. It also refined its go to market approach prioritizing industry verticals with higher win ratios and large contract values.

As a result, EBITDA increased by 31% to HK\$656 million for the year ended December 31, 2021 with the margin expanding to 13%.

Secured orders as of December 31, 2021 was HK\$24,540 million with new wins including large scale technical services projects for the Airport Authority of Hong Kong and a IT managed service project for one of the leading government agencies in Singapore. With its large secured order book and strong pipeline, the revenue outlook for the Solutions Business remains favorable as it captures a growing share of the opportunities arising from the digital transformation of enterprises in Hong Kong and the region.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the year ended December 31, 2021 was HK\$538 million versus HK\$460 million a year earlier.

Eliminations

Eliminations for the year ended December 31, 2021 were HK\$2,481 million versus HK\$3,859 million (restated) a year earlier reflecting collaboration among members of the Group on both internal and external projects.

Costs

Cost of Sales

For the year ended December 31, HK\$ million	2020			2021			Better/ (Worse) y-o-y
	H1 ⁶	H2 ⁶	Full Year ⁶	H1 ⁶	H2	Full Year	
HKT	6,941	8,762	15,703	7,550	9,179	16,729	(7)%
Consolidated	8,399	10,790	19,189	9,804	11,465	21,269	(11)%

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

Cost of sales for the OTT and Free TV & Related Business increased in line with their expanded businesses but with improved gross margins due to scale efficiencies. Cost of sales for the Solutions Business increased by 24%. As a result, cost of sales for the Group increased by 11% to HK\$21,269 million.

General and Administrative Expenses

For the year ended December 31, 2021, operating costs before depreciation, amortization and gains/losses on disposal of property, plant and equipment and right-of-use assets, net decreased by 1% to HK\$5,076 million due to the Group's continuous focus on operating efficiency through digitalizing business processes and cost control measures that were in place throughout the year.

Depreciation expenses for the year decreased by 2% to HK\$3,001 million, mainly due to lower depreciation of right-of-use assets as the Group continued to optimize its retail store portfolio. Amortization expenses during the year increased by 6% to HK\$4,625 million, reflecting the increase in amortization at HKT arising from Now TV business transfer and higher mobile spectrum licence fees and the continuous investment in developing proprietary solutions for the Solutions Business and acquisition and production of content for the OTT and Free TV & Related Business. Content-related amortization increased to HK\$1,376 million for the period as compared to HK\$1,099 million a year ago.

In total, general and administrative expenses increased slightly by 1% year-on-year to HK\$12,669 million for the year ended December 31, 2021.

EBITDA¹

Overall, consolidated EBITDA for the year ended December 31, 2021 increased by 6% to HK\$12,309 million with the margin stable at 32%, primarily due to narrowing of the EBITDA loss of the OTT Business and positive EBITDA for the Free TV & Related Business and the increase in EBITDA for the Solutions Business.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2021 was HK\$69 million while finance costs decreased by 14% year-on-year to HK\$1,401 million as a result of reduced borrowings after the issuance of perpetual capital securities in January 2021 and divestment of Data Centre Business. The average cost of debt also decreased to 2.57% compared to last year. As a result, net finance costs decreased by 15% year-on-year to HK\$1,332 million for the year ended December 31, 2021.

Income Tax

Income tax expense for the year ended December 31, 2021 was HK\$1,065 million, versus HK\$705 million (restated) a year ago. The increase was mainly due to the utilization of tax losses by certain group companies resulting in a reversal of deferred tax assets and increase in operating profit during the year.

Non-controlling Interests for Continuing Operations

Non-controlling interests for continuing operations were HK\$2,234 million for the year ended December 31, 2021 (2020 (restated): HK\$1,911 million), represented primarily the net profit attributable to the non-controlling shareholders of HKT.

Holders of Perpetual Capital Securities

Profit of HK\$226 million for the year ended December 31, 2021 was attributable to the holders of the perpetual capital securities, which represented distributions payable to the holders of the securities as accrued at 4% per annum on the US\$750 million principal amount of the perpetual capital securities issued by the Group in January 2021.

Consolidated Profit/Loss Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2021 was HK\$1,039 million (Consolidated loss attributable to equity holders of the Company for the year ended December 31, 2020: HK\$1,020 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt² was HK\$47,006 million as at December 31, 2021 (December 31, 2020: HK\$56,984 million). Cash and short-term deposits totaled HK\$5,036 million as at December 31, 2021 (December 31, 2020: HK\$4,619 million).

As at December 31, 2021, the Group had a total of HK\$42,859 million in banking facilities available for liquidity management and investment, of which HK\$20,528 million remained undrawn. Of these banking facilities, HKT accounted for HK\$32,209 million, of which HK\$9,878 million remained undrawn.

The Group's gross debt² to total assets was 50% as at December 31, 2021 (December 31, 2020: 58%).

On January 12, 2021, the Group issued US\$750 million perpetual subordinated guaranteed securities through its indirect wholly-owned subsidiary, CAS Capital No. 1 Limited, guaranteed by CAS Holding No. 1 Limited ("CAS"). CAS directly holds approximately 51.94% of the total number of Share Stapled Units in issue. The perpetual securities have strengthened the equity position of the Group and provided additional liquidity for the Group to fund its corporate activities including debt repayment.

CREDIT RATINGS OF CAS AND HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2021, CAS had investment grade ratings with Moody's Investors Services ("Moody's") (Baa3) and S&P Global Ratings ("S&P") (BBB-). Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's (Baa2) and S&P (BBB).

CAPITAL EXPENDITURE³

Group capital expenditure for the year ended December 31, 2021 was HK\$2,526 million (2020 (restated): HK\$2,632 million), of which HKT accounted for about 97% (2020 (restated): 93%).

Capital expenditure for HKT's Mobile business was steady in 2021 with spending focused on our 5G network expansion and enrichment. TSS capital expenditure dropped during the year, in line with the capital expenditure cycle of our extensive local fiber network and international cable systems. Overall HKT capital expenditure increased slightly by 1% during the year due to the full-year impact of the integration of Now TV business with HKT. Capital expenditure for OTT and Free TV & Related Business was flat but overall capital expenditure for media declined due to transfer of Now TV business to HKT. Capital expenditure for the Solutions Business decreased mainly due to an up-front investment in 2020 that was required to service a long term project.

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 and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

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

Around three quarters of the Group's consolidated revenue and costs are denominated in Hong Kong dollars. For those operations with revenues denominated in foreign currencies, the related costs and expenses are usually denominated in the same foreign currencies and hence provide a natural hedge against each other. Therefore, the Group is not exposed to significant foreign currency fluctuation risk from operations.

A significant portion of the Group's financing is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2021, the majority of the forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related financing of the Group.

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

CHARGE ON ASSETS

As at December 31, 2021, no assets (2020: HK\$8,311 million) were pledged to secure banking facilities for the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2020	2021
Performance guarantees	1,573	1,570
Others	337	160
	1,910	1,730

The Group is subject to certain corporate guarantee obligations to guarantee the performance of its subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability will not materially affect the financial position of the Group.

HUMAN RESOURCES

The Group had over 20,600 employees as at December 31, 2021 (2020: 22,900) located in 24 countries and cities. About 62% of these employees work in Hong Kong and the others are based mainly in mainland China, Singapore and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's 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.

FINAL DIVIDEND

The Board has recommended the payment of a final cash dividend of 27.69 HK cents (2020: 23 HK cents) per ordinary share for the year ended December 31, 2021 to shareholders whose names appear on the register of members of the Company on Friday, May 20, 2022, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Friday, May 13, 2022 ("AGM"). An interim cash dividend of 9.36 HK cents (2020: 9.18 HK cents) per ordinary share for the six months ended June 30, 2021 was paid to shareholders of the Company in September 2021.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final cash dividend will be Friday, May 20, 2022. The Company's register of members will be closed from Thursday, May 19, 2022 to Friday, May 20, 2022 (both days inclusive) in order to determine entitlements to the proposed final cash dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final cash dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (the "Share Registrar"), for registration no later than 4:30 p.m. on Wednesday, May 18, 2022. Subject to the approval of shareholders of the Company at the AGM, dividend warrants will be despatched to shareholders of the Company on or around Wednesday, June 1, 2022.

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

The record date for determining the entitlement of the shareholders of the Company to attend and vote at the AGM will be Friday, May 6, 2022. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Share Registrar for registration no later than 4:30 p.m. on Friday, May 6, 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2021.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of its business, and to ensure that its affairs are conducted in accordance with applicable laws and regulations.

The Company has applied the principles, and complied with all code provisions of the applicable Corporate Governance Code (the “CG Code”) in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended December 31, 2021, save and except in relation to code provision F.1.2 as the appointment of company secretary during the year was considered and approved at a meeting of the executive committee (in accordance with delegated Board authority and the outcome of which was reported to the Board), rather than at a physical meeting of the Board as required under code provision F.1.2. Accordingly, the requirement under code provision F.1.2 of the CG Code to approve this matter by physical Board meeting has not been strictly complied with. However, the Directors considered that the approval process was appropriate and efficient.

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2021 annual report will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board of
PCCW Limited
Cheung Hok Chee, Vanessa
Group General Counsel and Company Secretary

Hong Kong, February 24, 2022

AUDITED CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2021

In HK\$ million (except for (loss)/earnings per share)	Note(s)	2020 (Restated)	2021
Continuing operations			
Revenue	3, 4	35,984	38,654
Cost of sales		(19,189)	(21,269)
General and administrative expenses		(12,553)	(12,669)
Other losses, net	5	(563)	(45)
Interest income		67	69
Finance costs		(1,638)	(1,401)
Share of results of associates		(6)	590
Share of results of joint ventures		(19)	(18)
Profit before income tax	3, 6	2,083	3,911
Income tax	7	(705)	(1,065)
Profit for the year from continuing operations		1,378	2,846
Discontinued operations			
(Loss)/Profit for the year from discontinued operations	2	(729)	101
Profit for the year		649	2,947
(Loss)/Profit attributable to:			
Equity holders of the Company		(1,020)	1,039
Holders of perpetual capital securities		–	226
Non-controlling interests		1,669	1,682
		649	2,947
(Loss)/Profit attributable to equity holders of the Company arising from:			
Continuing operations		(533)	386
Discontinued operations		(487)	653
		(1,020)	1,039
(Loss)/Earnings per share			
Basic (loss)/earnings per share arising from:	9		
Continuing operations		(6.91) cents	5.00 cents
Discontinued operations		(6.31) cents	8.46 cents
		(13.22) cents	13.46 cents
Diluted (loss)/earnings per share arising from:			
Continuing operations		(6.91) cents	4.99 cents
Discontinued operations		(6.31) cents	8.45 cents
		(13.22) cents	13.44 cents

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

In HK\$ million	2020 (Restated)	2021
Profit for the year	649	2,947
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	(15)	18
	(15)	18
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	202	(347)
- reclassification of currency translation reserve on deconsolidation of subsidiaries	5	270
Cash flow hedges:		
- effective portion of changes in fair value	(271)	(2)
- transfer from equity to consolidated income statement	(82)	8
Costs of hedging	186	(43)
	40	(114)
Other comprehensive income/(loss) for the year	25	(96)
Total comprehensive income for the year	674	2,851
Attributable to:		
Equity holders of the Company	(1,106)	1,194
Holders of perpetual capital securities	–	226
Non-controlling interests	1,780	1,431
Total comprehensive income for the year	674	2,851
Total comprehensive (loss)/income for the year attributable to equity holders of the Company arising from:		
Continuing operations	(531)	400
Discontinued operations	(575)	794
	(1,106)	1,194

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2021

In HK\$ million	Note*	(Additional Information)			
		The Group 2020	The Group 2021	The Company 2020	The Company 2021
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		29,225	25,866	–	–
Right-of-use assets		3,602	2,341	–	–
Investment properties		3,617	–	–	–
Interests in leasehold land		350	329	–	–
Properties held for/under development		3,035	–	–	–
Goodwill		18,461	18,248	–	–
Intangible assets		14,534	18,572	–	–
Fulfillment costs		1,418	1,512	–	–
Customer acquisition costs		798	879	–	–
Contract assets		354	300	–	–
Interests in subsidiaries		–	–	33,852	35,723
Interests in associates		1,344	2,095	–	–
Interests in joint ventures		440	397	–	–
Financial assets at fair value through other comprehensive income		124	124	–	–
Financial assets at fair value through profit or loss		757	1,731	–	–
Other financial assets		–	1,341	–	–
Derivative financial instruments		243	146	29	–
Deferred income tax assets		932	788	–	–
Other non-current assets		1,294	933	–	–
		80,528	75,602	33,881	35,723
Current assets					
Amounts due from subsidiaries		–	–	5,122	1,857
Sales proceeds held in stakeholders' accounts		504	–	–	–
Properties under development/held for sale		279	–	–	–
Inventories		1,081	1,444	–	–
Prepayments, deposits and other current assets		3,400	3,137	60	74
Contract assets		2,376	2,977	–	–
Trade receivables, net	10	4,627	5,761	–	–
Amounts due from related companies		49	34	–	–
Derivative financial instruments		–	25	–	25
Tax recoverable		22	20	–	–
Restricted cash		222	187	–	–
Short-term deposits		538	472	–	–
Cash and cash equivalents		4,081	4,564	229	1,430
		17,179	18,621	5,411	3,386
Assets classified as held for sale		132	–	–	–
		17,311	18,621	5,411	3,386

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2021

In HK\$ million	Note*	The Group		(Additional Information) The Company	
		2020	2021	2020	2021
Current liabilities					
Short-term borrowings		(2,370)	(2,419)	–	–
Trade payables	11	(4,418)	(5,770)	–	–
Accruals and other payables		(6,188)	(8,170)	(14)	(11)
Amount payable to the Government under the Cyberport Project Agreement		(330)	–	–	–
Derivative financial instruments		(29)	–	(5)	(4)
Carrier licence fee liabilities		(215)	(315)	–	–
Amounts due to related companies		(47)	(66)	–	–
Advances from customers		(310)	(270)	–	–
Contract liabilities		(1,629)	(1,658)	–	–
Lease liabilities		(1,508)	(1,120)	–	–
Current income tax liabilities		(1,290)	(1,827)	–	–
		(18,334)	(21,615)	(19)	(15)
Non-current liabilities					
Long-term borrowings		(54,319)	(44,404)	(3,609)	–
Amounts due to subsidiaries		–	–	(3,391)	(6,902)
Derivative financial instruments		(137)	(128)	–	–
Deferred income tax liabilities		(4,023)	(4,267)	–	–
Defined benefit retirement schemes liability		(129)	(103)	–	–
Carrier licence fee liabilities		(627)	(3,449)	–	–
Contract liabilities		(1,074)	(1,159)	–	–
Lease liabilities		(2,362)	(1,273)	–	–
Other long-term liabilities		(3,280)	(2,343)	–	–
		(65,951)	(57,126)	(7,000)	(6,902)
Net assets		13,554	15,482	32,273	32,192

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2021

In HK\$ million	Note*	The Group		(Additional Information) The Company	
		2020	2021	2020	2021
CAPITAL AND RESERVES					
Share capital	12	12,954	12,954	12,954	12,954
Reserves		(3,021)	(4,477)	19,319	19,238
Equity attributable to equity holders of the Company					
		9,933	8,477	32,273	32,192
Perpetual capital securities	13	–	5,886	–	–
Non-controlling interests		3,621	1,119	–	–
Total equity		13,554	15,482	32,273	32,192

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2020 and 2021 is presented only as additional information to these consolidated financial statements.

NOTES

1. BASIS OF PREPARATION

These consolidated financial statements of PCCW Limited (“PCCW” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2021 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

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

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

As at December 31, 2021, the current liabilities of the Group exceeded its current assets by HK\$2,994 million. Included in the current liabilities were short-term borrowings of HK\$2,419 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. The Group has arrangements to refinance this balance via long-term borrowings. As at December 31, 2021, the Group had a total undrawn banking facilities amounted to HK\$20,528 million, which would be sufficient to enable the Group 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 financial information relating to the years ended December 31, 2020 and 2021 included in this preliminary announcement of annual results for the year ended December 31, 2021 does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended December 31, 2021 in due course.

1. BASIS OF PREPARATION (CONTINUED)

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

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

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

2. DISCONTINUED OPERATIONS

Pursuant to the share purchase agreement dated July 26, 2021, the divestment of the Group's entire interests in data center business in Hong Kong and Malaysia comprising the provision of carrier-neutral colocation services carried on by PCCW Powerbase Data Center Services (HK) Limited and PCCW Solutions Data Centers Malaysia Sdn. Bhd. (the "Discontinued Data Center Business") was completed on December 3, 2021 for a total consideration of US\$750 million (equivalent to approximately HK\$5,850 million), subject to certain adjustments in accordance with the terms of the share purchase agreement.

Pursuant to the sale and purchase agreement dated December 23, 2021, the Group completed the sale of approximately 1.1% equity interest in Pacific Century Premium Developments Limited ("PCPD") on December 29, 2021 for a total consideration of HK\$13 million, and the Group's equity interest in PCPD was reduced to approximately 30.1% accordingly. Following the completion of the sale and a change of directorship in the board of directors of PCPD, the Group is no longer considered having de facto control over PCPD with effect from December 29, 2021, and PCPD ceased to be a subsidiary and became an associate of the Group ("Deconsolidation of PCPD").

In accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of the Discontinued Data Center Business and PCPD before the respective dates of completion have been presented as discontinued operations in the Group's consolidated income statement and consolidated statement of comprehensive income. The comparative figures for the year ended December 31, 2020 in the Group's consolidated income statement and consolidated statement of comprehensive income were restated to reflect the reclassification between continuing operations and discontinued operations of the Group accordingly.

2. DISCONTINUED OPERATIONS (CONTINUED)

An analysis of the financial results relating to the discontinued operations and the related gain/loss on deconsolidation of subsidiaries are set out below:

(a) Financial results information

The financial results presented are for the year ended December 31, 2020 and the financial period from January 1, 2021 to the respective dates of completion of the divestment of the Discontinued Data Center Business and Deconsolidation of PCPD.

In HK\$ million	2020	2021
Revenue (<i>note iii</i>)	2,494	1,202
Cost of sales	(1,731)	(483)
General and administrative expenses	(935)	(982)
Other losses, net	(229)	(15)
Interest income	9	7
Finance costs	(283)	(466)
Loss before income tax	(675)	(737)
Income tax	(54)	(52)
Loss after income tax	(729)	(789)
Gain on divestment of Discontinued Data Center Business (<i>note i</i>)	–	1,518
Loss on Deconsolidation of PCPD (<i>note ii</i>)	–	(628)
(Loss)/Profit from discontinued operations	<u>(729)</u>	<u>101</u>
Attributable to:		
- Equity holders of the Company	(487)	653
- Non-controlling interests	(242)	(552)
	<u>(729)</u>	<u>101</u>

In HK\$ million	2020	2021
(Loss)/Profit from discontinued operations	(729)	101
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
- exchange differences on translating foreign operations	72	(342)
- reclassification of currency translation reserve on deconsolidation of subsidiaries	–	270
Total comprehensive (loss)/income from discontinued operations	<u>(657)</u>	<u>29</u>
Attributable to:		
- Equity holders of the Company	(575)	794
- Non-controlling interests	(82)	(765)
	<u>(657)</u>	<u>29</u>

2. DISCONTINUED OPERATIONS (CONTINUED)

(a) Financial results information (continued)

i. Gain on divestment of Discontinued Data Center Business

In HK\$ million	2021
Cash consideration, net of direct expenses	3,789
Less: Carrying amount of net assets deconsolidated of	(2,269)
Reclassification of currency translation reserve on deconsolidation of subsidiaries	(2)
	1,518

ii. Loss on Deconsolidation of PCPD

In HK\$ million	2021
Cash consideration, net of direct expenses	13
Fair value of the retained interest in PCPD	368
Less: Carrying amount of net assets attributable to PCCW deconsolidated of	(741)
Reclassification of currency translation reserve on deconsolidation of subsidiaries	(268)
	(628)

Note: Save for the loss on Deconsolidation of PCPD of HK\$628 million, included in the share of results of associates recognized in the Group's consolidated income statement was an excess of PCCW's share of the net fair value of PCPD's identifiable assets and liabilities over the fair value of the PCCW's retained interests upon the Deconsolidation of PCPD of HK\$648 million. Accordingly, the net impact to the Group's consolidated income statement attributable to the Deconsolidation of PCPD was a credit of HK\$20 million for the year ended December 31, 2021.

iii. Revenue of discontinued operations

In HK\$ million	2020	2021
External revenue from contracts with customers		
- recognized at a point in time	1,416	93
- recognized over time	675	666
External revenue – rental income	173	176
Internal revenue	230	267
	2,494	1,202
Attributable to:		
- PCPD segment	1,843	467
- Solutions Business segment	651	735
	2,494	1,202

2. DISCONTINUED OPERATIONS (CONTINUED)

(a) Financial results information (continued)

iv. EBITDA* of discontinued operations

In HK\$ million	2020	2021
Attributable to:		
- PCPD segment	28	(175)
- Solutions Business segment	292	383
	320	208

* as defined in note 3

(b) Details of the discontinued operations

Net assets of Discontinued Data Center Business and PCPD as at the respective dates of deconsolidation:

In HK\$ million	Carrying amount
Property, plant and equipment	4,955
Right-of-use assets	808
Investment properties	3,625
Interests in leasehold land	3
Properties held for/under development	3,087
Goodwill	213
Intangible assets	35
Financial assets at fair value through profit or loss	8
Deferred income tax assets	7
Other non-current assets	342
Total non-current assets (note)	13,083
Sales proceeds held in stakeholders' accounts	504
Properties under development/held for sale	260
Inventories	18
Prepayments, deposits and other current assets	546
Contract assets	151
Trade receivables, net	142
Amounts due from related companies	4
Tax recoverable	4
Restricted cash	119
Short-term deposits	1,942
Cash and cash equivalents	1,706
Total current assets	5,396
Short-term borrowings	(2,427)
Trade payables	(24)
Accruals and other payables	(548)
Amount payable to the Government under the Cyberport Project Agreement	(334)
Advances from customers	(39)
Contract liabilities	(98)
Lease liabilities	(189)
Current income tax liabilities	(11)
Total current liabilities	(3,670)

2. DISCONTINUED OPERATIONS (CONTINUED)

(b) Details of the discontinued operations (continued)

In HK\$ million	Carrying amount
Long-term borrowings	(8,880)
Deferred income tax liabilities	(93)
Lease liabilities	(768)
Other long-term liabilities	(241)
Total non-current liabilities	(9,982)
Net assets	4,827
Less: Non-controlling interests	(1,817)
Net assets attributable to PCCW deconsolidated of	3,010

Note: Included total non-current assets of HK\$2,886 million and HK\$10,197 million attributable to the respective segments of Solutions Business and PCPD as at the respective dates of deconsolidation.

3. SEGMENT INFORMATION

The chief operating decision-maker (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:

- HKT Limited (“HKT”) is Hong Kong’s premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, Fintech, e-Commerce, Big Data Analytics, media entertainment, the provision of interactive pay-TV services and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.
- Media Business offers over-the-top digital media entertainment services in Hong Kong, the Asia Pacific region, and other parts of the world and domestic free television service in Hong Kong. Prior to October 1, 2020, Media Business also offered pay-TV services.
- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong and other parts of Greater China and Asia.

As disclosed in note 2, the operating results of the Discontinued Data Center Business in Solutions Business and PCPD were classified as discontinued operations of the Group and were excluded from the segment information in the year ended December 31, 2021. The comparative figures of segment information for the year ended December 31, 2020 were restated to follow the current year presentation accordingly.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization (“EBITDA”). EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gains/losses on disposal of property, plant and equipment, investment properties, 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.

3. 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:

In HK\$ million	2020 (Restated)					Other [#]	Consolidated
	Reportable segments						
	HKT	Media Business	Solutions Business	Eliminations	Total		
REVENUE							
External revenue	30,896	2,356	2,732	–	35,984	–	35,984
Inter-segment revenue	1,493	1,013	1,353	(3,859)	–	–	–
Total revenue	32,389	3,369	4,085	(3,859)	35,984	–	35,984
External revenue from contracts with customers:							
Timing of revenue recognition							
At a point in time	5,173	336	49	–	5,558	–	5,558
Over time	25,663	2,020	2,683	–	30,366	–	30,366
External revenue from other sources:							
Rental income	60	–	–	–	60	–	60
	30,896	2,356	2,732	–	35,984	–	35,984
RESULTS							
EBITDA	12,527	(38)	502	(873)	12,118	(460)	11,658

3. SEGMENT INFORMATION (CONTINUED)

In HK\$ million	2021					Other [#]	Consolidated
	Reportable segments						
	HKT	Media Business	Solutions Business	Eliminations	Total		
REVENUE							
External revenue	32,685	2,058	3,911	–	38,654	–	38,654
Inter-segment revenue	1,276	222	983	(2,481)	–	–	–
Total revenue	33,961	2,280	4,894	(2,481)	38,654	–	38,654
External revenue from contracts with customers:							
Timing of revenue recognition							
At a point in time	6,848	465	57	–	7,370	–	7,370
Over time	25,784	1,593	3,854	–	31,231	–	31,231
External revenue from other sources:							
Rental income	53	–	–	–	53	–	53
	32,685	2,058	3,911	–	38,654	–	38,654
RESULTS							
EBITDA	12,733	71	656	(613)	12,847	(538)	12,309

[#] Other primarily comprises corporate support functions.

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

In HK\$ million	2020 (Restated)	2021
Total segment EBITDA	11,658	12,309
Gains on disposal of property, plant and equipment and right-of-use assets, net	1	33
Depreciation and amortization	(7,417)	(7,626)
Other losses, net	(563)	(45)
Interest income	67	69
Finance costs	(1,638)	(1,401)
Share of results of associates and joint ventures	(25)	572
Profit before income tax from continuing operations	2,083	3,911

3. 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	2020 (Restated)	2021
Hong Kong (place of domicile)	28,399	29,999
Mainland and other parts of China	1,188	1,476
Singapore	2,374	2,730
Others	4,023	4,449
	35,984	38,654

As at December 31, 2021, the total of non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong was HK\$65,163 million (2020: HK\$63,318 million), and the total of these non-current assets located in other geographical locations was HK\$6,172 million (2020: HK\$14,878 million).

4. REVENUE

In HK\$ million	2020 (Restated)	2021
Revenue from contracts with customers	35,924	38,601
Revenue from other sources: rental income	60	53
	35,984	38,654

(a) Revenue recognition in relation to contract liabilities

In HK\$ million	2020 (Restated)	2021
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,560	1,549

4. REVENUE (CONTINUED)

(b) Unsatisfied long-term fixed-price contracts

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

40,936 **43,967**

As at December 31, 2021, management expected that 32% and 20% (2020 (restated): 31% and 15%) 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 48% (2020 (restated): 54%) would be recognized as revenue in the periods afterwards. The amount disclosed above does not include unsatisfied performance obligation that is related to the Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

5. OTHER LOSSES, NET

In HK\$ million	2020 (Restated)	2021
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Fair value movement of derivative financial instruments	5	24
Fair value losses on financial assets at FVPL ¹	(116)	(80)
Write-off of intangible assets	(409)	(5)
Loss on deconsolidation of subsidiaries, net	(35)	–
Others	(8)	16
	<u>(563)</u>	(45)

¹ FVPL refers to fair value through profit or loss

6. PROFIT BEFORE INCOME TAX

Profit before income tax was stated after charging the following:

In HK\$ million	2020 (Restated)	2021
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Cost of inventories sold	4,652	6,463
Cost of sales, excluding inventories sold	14,537	14,806
Depreciation of property, plant and equipment	1,394	1,396
Depreciation of right-of-use assets – land and buildings	1,484	1,440
Depreciation of right-of-use assets – network capacity and equipment	192	165
Amortization of land lease premium – interests in leasehold land	18	18
Amortization of intangible assets	2,736	3,072
Amortization of fulfillment costs	489	393
Amortization of customer acquisition costs	1,104	1,142

7. INCOME TAX

In HK\$ million	2020 (Restated)	2021
Current income tax:		
Hong Kong profits tax	419	479
Overseas tax	53	104
Movement of deferred income tax	233	482
	705	1,065

Hong Kong profits tax is provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

8. DIVIDENDS

In HK\$ million	2020	2021
Interim cash dividend declared and paid in respect of the current year of 9.36 HK cents (2020: 9.18 HK cents) per ordinary share	710	723
Less: dividend for shares held by share award schemes	(1)	(1)
	709	722
Special interim dividend by way of distribution in specie (<i>note (a)</i>)	1,603	–
Final cash dividend declared in respect of the previous financial year, approved and paid during the year of 23 HK cents (2020: 23 HK cents) per ordinary share	1,778	1,778
Less: dividend for shares held by share award schemes	(4)	(2)
	1,774	1,776
	4,086	2,498
Final cash dividend proposed after the end of the reporting period of 27.69 HK cents (2020: 23 HK cents) per ordinary share (<i>note (b)</i>)	1,778	2,140

8. DIVIDENDS (CONTINUED)

- (a) On August 6, 2020, the board of directors of the Company declared a special interim dividend in the form of a distribution in specie of shares of PCPD (the “PCPD Shares”) to the qualifying shareholders in proportion to their then respective shareholdings in the Company (the “Distribution”) on the basis of 85 PCPD Shares for every 1,000 shares of the Company, provided that if certain condition is fulfilled by September 1, 2020, the amount of the Distribution would be increased to 108 PCPD Shares for every 1,000 shares of the Company. With such condition fulfilled in August 2020, the Company made the Distribution of a total of 834,800,925 PCPD Shares with an aggregate market value of HK\$1,603 million to qualifying shareholders on the basis of 108 PCPD Shares for every 1,000 shares of the Company in September 2020. Immediately after the Distribution, the Company’s economic interest in PCPD and its subsidiaries (together the “PCPD Group”) reduced from approximately 92.6% to approximately 40.0% with a corresponding increase in non-controlling interests attributable to the PCPD Group of HK\$1,760 million measured according to the attributable carrying amount.
- (b) Final dividend proposed after the end of the reporting period is not recognized as a liability at the end of the reporting period.

9. (LOSS)/EARNINGS PER SHARE

The calculations of basic and diluted (loss)/earnings per share were based on the following data:

	2020	2021
(Loss)/Earnings (in HK\$ million)		
(Loss)/Earnings for the purpose of basic and diluted (loss)/earnings per share arising from:		
Continuing operations	(533)	386
Discontinued operations	(487)	653
	<u>(1,020)</u>	<u>1,039</u>
Number of shares		
Weighted average number of ordinary shares	7,727,589,069	7,729,638,249
Effect of shares held under the Company’s share award schemes	(10,648,965)	(8,606,206)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	7,716,940,104	7,721,032,043
Effect of shares awarded under the Company’s share award schemes	—*	7,309,850
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>7,716,940,104</u>	<u>7,728,341,893</u>

* The effect of shares awarded under the Company’s share award schemes would result in anti-dilutive effect on loss per share during the year ended December 31, 2020.

10. TRADE RECEIVABLES, NET

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

In HK\$ million	2020	2021
1 – 30 days	3,034	3,831
31 – 60 days	593	679
61 – 90 days	318	284
91 – 120 days	153	288
Over 120 days	895	1,087
	4,993	6,169
Less: loss allowance	(366)	(408)
	<u>4,627</u>	<u>5,761</u>

As at December 31, 2021, included in trade receivables, net were amounts due from related parties of HK\$43 million (2020: HK\$39 million).

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.

11. TRADE PAYABLES

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

In HK\$ million	2020	2021
1 – 30 days	1,936	2,544
31 – 60 days	937	807
61 – 90 days	557	890
91 – 120 days	271	561
Over 120 days	717	968
	4,418	<u>5,770</u>

As at December 31, 2021, included in trade payables were amounts due to related parties of HK\$37 million (2020: HK\$36 million).

12. SHARE CAPITAL

	Year ended December 31,			
	2020		2021	
	Number of shares	Share capital HK\$ million	Number of shares	Share capital HK\$ million
Ordinary shares of no par value, issued and fully paid:				
As at January 1,	7,719,638,249	12,954	7,729,638,249	12,954
Shares issued (<i>note (a)</i>)	10,000,000	–	–	–
As at December 31,	7,729,638,249	12,954	7,729,638,249	12,954

(a) During the year ended December 31, 2020, the Company issued and allotted 10,000,000 new fully paid shares for an aggregate consideration of HK\$100,000 (HK\$0.01 per share) under general mandate for grant of awards pursuant to the share award scheme.

(b) The Company had total distributable reserves of HK\$19,219 million as at December 31, 2021 (December 31, 2020: HK\$19,314 million).

13. PERPETUAL CAPITAL SECURITIES

On January 12, 2021, CAS Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$750 million perpetual subordinated guaranteed securities. The securities are non-callable in the first 5.5 years and entitle its holders distributions at a distribution rate of 4.00% per annum with reset every 5 years from year 5.5 and fixed step-up margins at year 10.5 and year 25.5. CAS Capital No. 1 Limited has the right to redeem the securities from holders and defer the payment of distributions under certain circumstances in accordance with the terms and conditions of the securities. The securities are listed on the Singapore Exchange Securities Trading Limited and are irrevocably and unconditionally guaranteed by CAS Holding No. 1 Limited, a direct wholly-owned subsidiary of the Company.

The perpetual capital securities are classified as equity.

14. SUBSEQUENT EVENT

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

As at the date of this announcement, the Directors are as follows:

Executive Directors

Li Tzar Kai, Richard (Chairman); Srinivas Bangalore Gangaiah (aka BG Srinivas) (Group Managing Director) and Hui Hon Hing, Susanna (Group Chief Financial Officer)

Non-Executive Directors

Tse Sze Wing, Edmund, GBS; Mai Yanzhou (Deputy Chairman); Meng Shusen; Wang Fang and Wei Zhe, David

Independent Non-Executive Directors

Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert; David Christopher Chance and David Lawrence Herzog

Forward-Looking Statements

This announcement may contain certain forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues, earnings and prospects. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of PCCW relating to the business, industry and markets in which PCCW operates.