

# Management Discussion and Analysis

## Financial Review

Turnover of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2009 was HK\$8,449 million, representing an increase of 4% compared to HK\$8,124 million in 2008. The increase in turnover was mainly attributable to growing demand for mobile and fixed-line broadband services. The Group reported an operating profit of HK\$787 million for the year under review, representing an increase of 55% compared to HK\$508 million in 2008. The increase in operating profit was mainly attributable to a steady turnover growth coupled with effective cost management.

In 2009, the Group adopted a new accounting policy to expense all customer acquisition costs (CAC) and customer retention costs (CRC) as other operating expenses in the income statement as incurred, instead of capitalising and amortising these costs over the minimum enforceable contractual period. Such change in policy has been accounted for retrospectively, resulting in decreased value of other intangible assets amounting to HK\$828 million (2008: HK\$758 million) and a net decrease of profit attributable to equity holders of HK\$52 million (2008: HK\$200 million). The change allows closer alignment of income and cash flow statements, and provides greater comparability with the results of other major telecommunications operators.

Depreciation and amortisation expenses decreased by 7% to HK\$1,288 million for the year ended 31 December 2009 as a result of more fully depreciated assets. Other operating expenses amounted to HK\$4,974 million, which is comparable to 2008.

Interest and finance costs for the year ended 31 December 2009 amounted to HK\$184 million, a decrease of 17% compared to HK\$223 million in 2008. This decrease was in line with the decrease in market interest rates.

Share of losses from jointly-controlled entities during the year ended 31 December 2009 was HK\$16 million compared to HK\$11 million in 2008. Taxation for the year ended 31 December 2009 was HK\$61 million compared to HK\$73 million in 2008.

Overall, the Group recorded a net profit attributable to equity holders for the year ended 31 December 2009 of HK\$468 million, representing an increase of 103% compared to HK\$230 million in 2008.

## Business Review

The Group engages in mobile business and fixed-line business.

### *Mobile business in Hong Kong and Macau*

Although year 2009 was a challenging year for the mobile telecommunications industry, and despite the dampening effect of global economic turmoil, turnover of our mobile operations increased 3% to HK\$5,578 million compared to HK\$5,395 million in 2008. We maintained a leading position in the 3G Hong Kong market with a customer base of over 1.4 million as at 31 December 2009, representing a 12% growth from the beginning of the year. Total customer base in Hong Kong and Macau was approximately 3 million, with the number of postpaid customers reaching 1.9 million, accounting for over 60% of the total customer base.

An all-round decline in spending and travelling resulted in lower roaming revenue. Nevertheless, we see continued demand for data usage from sophisticated customers, such as those using iPhones, other smartphones and mobile broadband data products.

EBITDA increased 14% from HK\$1,002 million to HK\$1,138 million, attributable to growth in turnover, and effective cost management.

CAPEX totalled HK\$413 million which demonstrated our continued commitment to network excellence.



### *Fixed-line business in Hong Kong*

Our fixed-line business comprises three main segments – international and local carriers, corporate and business, and residential. The international and local carriers segment involves product and service areas such as International Private Leased Circuits (“IPLC”), data and IDD. Our corporate and business segment focuses on leased-line, voice, data, broadband and IDD services, serving mainly large corporations and telecommunications operators. The residential segment provides voice, broadband and IDD services to the mass market.

Thanks to years spent on developing a formidable optical-fibre capability, we own one of the most extensive fibre-to-the-building telecommunications infrastructure in Hong Kong. Turnover increased 6% to HK\$3,221 million compared to HK\$3,035 million in 2008, mainly as a result of our strategic investment in markets holding high-growth potential. This enabled us to broaden our customer base by appealing to higher-yield carriers, corporate and enterprise customers.

EBITDA increased 4% from HK\$995 million to HK\$1,031 million, due to increased contribution from international and local carriers segment offset by lower interconnection revenue following the demolition of interconnection payment arrangement in 2009.

CAPEX was HK\$623 million in 2009 compared to HK\$523 million in 2008, which largely represents our revenue-driven investment planning.

### **Prospects**

We pledge to serve customers with leading-edge mobile connectivity, infotainment and applications. Our state-of-the-art fibre-to-the-building infrastructure, modernised 3G network, together with newly awarded 4G license well position us to capture the growing demand for broadband services and complex service applications.

The combined effect of these factors will enable us to remain in the vanguard of Hong Kong's dynamic telecommunications industry, while benefiting from strong financial position and healthy operating cash flows. This positive positioning will serve our commitment to deliver value to our shareholders by generating steady growth.