

# Management Discussion and Analysis

## Financial Review

Turnover of the Group for the year ended 31 December 2010 was HK\$9,880 million, representing an increase of 17% compared to HK\$8,449 million in 2009. The increase in turnover was mainly attributable to growing demand for mobile and fixed-line services as well as strong sales of telecommunications products. The Group reported an operating profit of HK\$1,107 million in 2010, representing an increase of 41% compared to HK\$787 million in 2009. The increase in operating profit was mainly attributable to steady turnover growth coupled with effective cost management.

Cost of inventories sold for the year ended 31 December 2010 amounted to HK\$1,776 million, compared to HK\$756 million in 2009, as a result of growing customers' interests in smartphones.

With effect from 1 January 2010, the Group revised the estimated useful lives of various categories of 2G network equipment in Hong Kong. This change was the result of our periodic assessment of technology developments and the intended use of network equipment. The depreciation charge of the relevant equipment recognised during 2010 was approximately HK\$86 million. This would have been HK\$170 million higher, if the Group had continued with the previous estimated useful lives assessment. As such, total depreciation and amortisation for the year ended 31 December 2010 was HK\$1,087 million, a decrease of 16% compared to HK\$1,288 million in 2009.

Other operating expenses for the year ended 31 December 2010 amounted to HK\$5,264 million, compared to HK\$4,974 million in 2009, a 6% increase reflecting stringent cost management.

Interest and finance costs for the year ended 31 December 2010 amounted to HK\$128 million, a decrease of 30% compared to HK\$184 million in 2009, mainly due to lower borrowings.

Share of losses in jointly controlled entities during the year ended 31 December 2010 was HK\$21 million compared to HK\$16 million in 2009. Taxation for the year ended 31 December 2010 was HK\$63 million compared to HK\$61 million in 2009.

Overall, the Group recorded a net profit attributable to shareholders of the Company for the year ended 31 December 2010 of HK\$755 million, representing an increase of 61% compared to HK\$468 million in 2009.

## Business Review

The Group is engaged in two principal businesses – mobile and fixed-line.

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

2010 represented another year of success for our mobile telecommunications business. Driven by a recovering economy in Hong Kong and Macau, turnover of our mobile operations increased by 25% to HK\$6,950 million in 2010 compared to HK\$5,578 million in 2009. We maintained a leading position in the Hong Kong market with a subscription base exceeding 2.83 million as at 31 December 2010. Our total Hong Kong and Macau subscription base amounted to approximately 3.20 million, over 60% of which was accounted for by our postpaid customers.

A rebound in spending and travelling, together with higher roaming revenue, helped to build continuing demand for data usage from high-end customers, such as those using iPhones, other smartphones and mobile broadband data devices.

EBITDA increased by 9% from HK\$1,138 million in 2009 to HK\$1,238 million in 2010, attributable to growth in turnover and effective cost management.

Capital expenditures totalled HK\$507 million in 2010 compared to HK\$413 million in 2009, demonstrating our continuing commitment to network excellence.

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

Turnover increased by 2% to HK\$3,286 million in 2010 compared to HK\$3,221 million in 2009. This was mainly the result of continuing traffic growth offset by lower interconnection revenue following governmental deregulation of fixed and mobile interconnection fee arrangement in 2009.

EBITDA increased by 3% from HK\$1,031 million in 2009 to HK\$1,064 million in 2010, in line with growth in turnover.

Capital expenditures were HK\$613 million in 2010 which was comparable to HK\$623 million in 2009.