



# Management Discussion and Analysis

## Financial Review

Turnover of the Group increased by 36% from HK\$9,880 million in 2010 to HK\$13,407 million in 2011. Service revenue grew from HK\$8,088 million in 2010 to HK\$8,468 million in 2011. Hardware revenue, fueled by growing demand for smart devices, increased from HK\$1,792 million in 2010 to HK\$4,939 million in 2011.

Total operating expenses, including cost of inventories sold, increased from HK\$8,773 million in 2010 to HK\$11,975 million in 2011, in line with turnover growth.

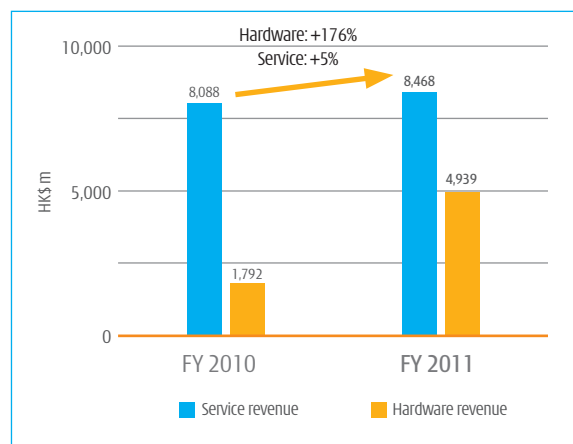
EBITDA rose by 19%, from HK\$2,194 million in 2010 to HK\$2,611 million in 2011 while operating profit grew from HK\$1,107 million in 2010 to HK\$1,432 million in 2011, reflecting an increase of 29%.

The gearing ratio, calculated by dividing net debt by total equity, remained stable at 35%. Interest and other finance costs decreased from HK\$128 million in 2010 to HK\$124 million in 2011.

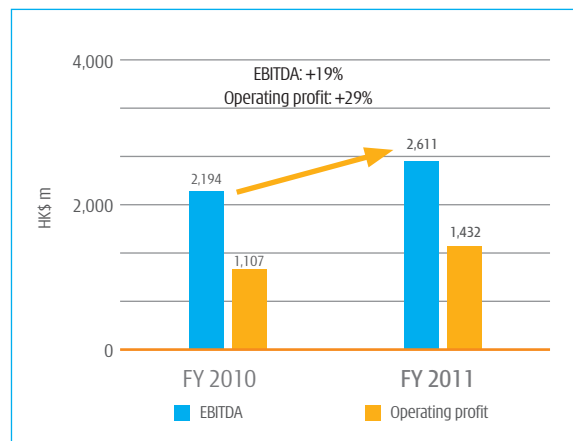
Share of losses of jointly-controlled entities dropped from HK\$21 million in 2010 to HK\$4 million in 2011. Taxation for the year decreased from HK\$63 million in 2010 to HK\$49 million in 2011.

Overall, the Group recorded a 35% growth in net profit attributable to shareholders of the Company from HK\$755 million in 2010 to HK\$1,020 million in 2011.

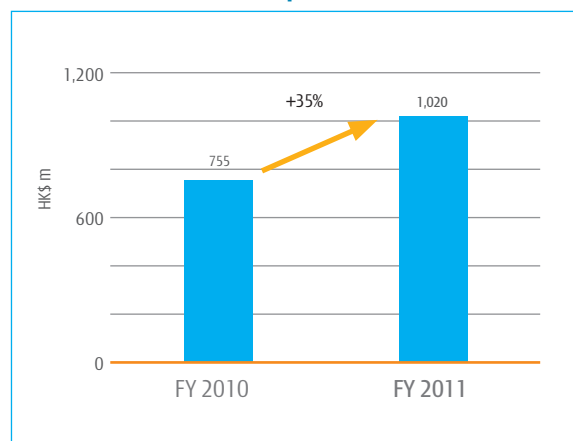
### Consolidated turnover



### EBITDA and operating profit



### Net profit



## Business Review

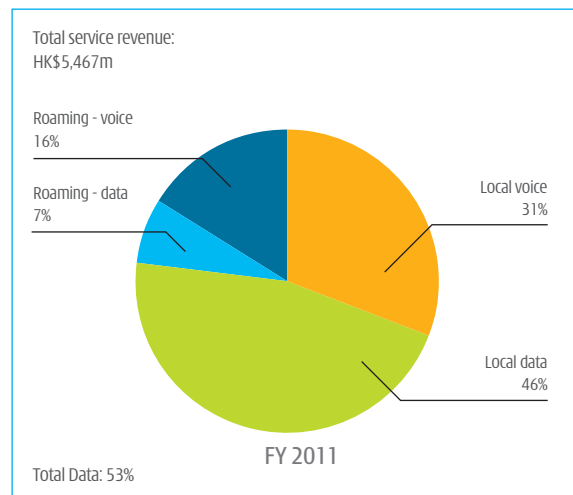
The Group is engaged in two principal businesses - mobile and fixed-line.

### Mobile business in Hong Kong and Macau

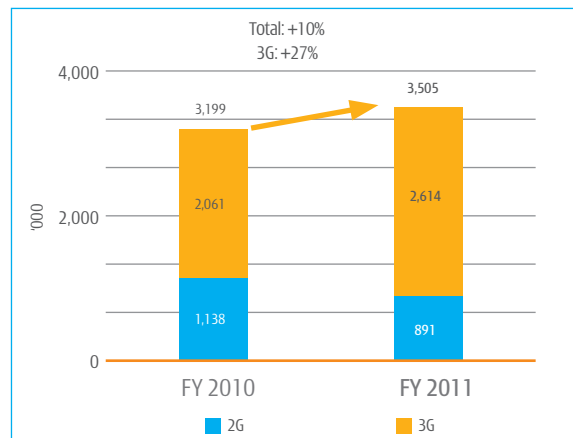
Year 2011 saw a record growth in our mobile telecommunications business which accounted for over 70% of consolidated turnover. Turnover for our mobile operations increased by 50% from HK\$6,950 million in 2010 to HK\$10,406 million in 2011, driven by growing popularity of smart devices. Service revenue increased from HK\$5,158 million in 2010 to HK\$5,467 million in 2011. Demand for data service was robust, local and roaming data revenue in aggregate accounted for 53% of mobile service revenue.

Our subscriber base continued to expand, and as of 31 December 2011, we commanded a total Hong Kong and Macau customer base of 3.51 million of which 3G customers accounted for approximately 75%, indicating a growing proportion of high-yield subscribers. Compared to 2010, 3G customers increased by 0.55 million to 2.61 million, reflecting a growth of 27%. The total number of Hong Kong and Macau postpaid customers was 2.00 million in 2011.

### Mobile service revenue

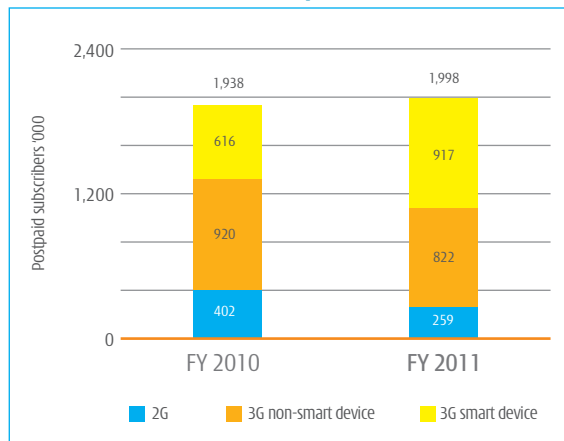


### Total subscribers



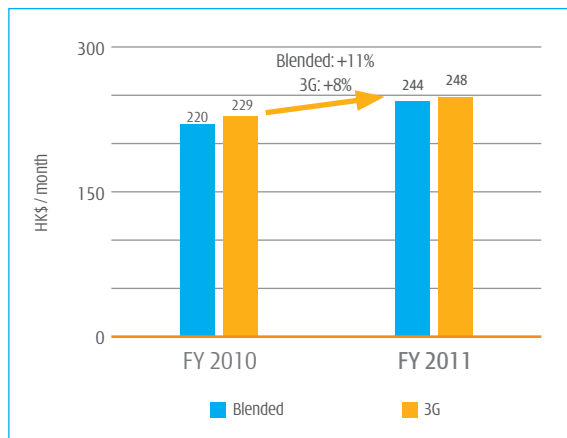
Our wide selection of mobile data offerings and competitive tariff packages drove customer demand for bandwidth, while widespread popularity of smart devices, such as smartphones and tablet models, provided an extra uplift of smart device ownership. Our 3G postpaid customers using smart devices recorded a substantial growth of 49% while penetration rate in our 3G postpaid customer base climbed from 40% in 2010 to 53% in 2011, reflecting our continuous effort on internal upward migration.

### Smart device penetration



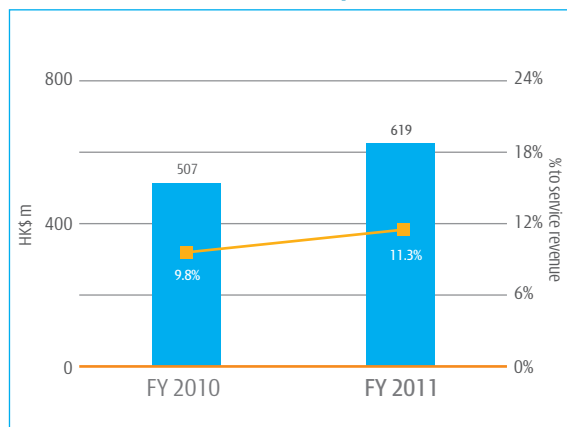
Increased availability of smart devices added further boost to ARPU growth. Our blended postpaid ARPU increased from HK\$220 in 2010 to HK\$244 in 2011 with 3G ARPU rising from HK\$229 in 2010 to HK\$248 in 2011.

### Postpaid ARPU



EBITDA increased by 38% from HK\$1,238 million in 2010 to HK\$1,712 million in 2011, mainly as a result of turnover growth benefiting from strong telecommunications hardware sales and demand for data services, as well as carefully-executed cost-planning initiatives. Operating profit increased by 49% from HK\$792 million in 2010 to HK\$1,184 million in 2011.

### Mobile capex



Capital expenditures increased to HK\$619 million in 2011 while capital expenditures to service revenue reached 11.3% in 2011.

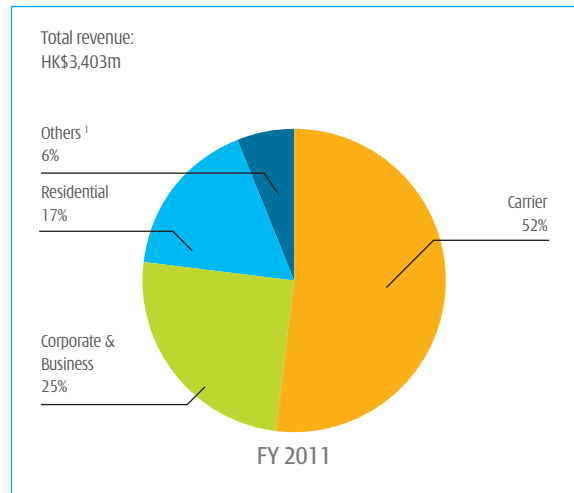
**Fixed-line business**

Turnover increased by 4% from HK\$3,286 million in 2010 to HK\$3,403 million in 2011. Revenue from the carrier market showed an increase of 12% from HK\$1,588 million in 2010 to HK\$1,781 million in 2011. Revenue from the corporate and business market was maintained at the same level as last year, with a slight increase from HK\$838 million in 2010 to HK\$840 million in 2011. Revenue from the residential market amounted to HK\$583 million in 2011, compared to HK\$642 million in 2010 due to intense price competition in the residential market. Overall steady growth was sustained, driven by our strong presence in the carrier market, in which we enjoyed increasing IDD and data revenue, while providing high-speed and reliable network services to high-yield corporate customers.

EBITDA was HK\$1,016 million in 2011 compared to HK\$1,064 million in 2010 following keen competition in the residential voice market, which was partially offset by growth in carrier and corporate markets. Operating profit in 2011 was HK\$364 million, compared to HK\$422 million in 2010, a decline of HK\$58 million. This decline was due to the EBITDA decline mentioned above as well as a non-recurring loss of HK\$44 million from write-off of submarine cables located at the Hong Kong-Zhuhai-Macau Bridge construction site.

Capital expenditures were HK\$529 million in 2011 while capital expenditures to revenue in 2011 reduced to 15.5%

**Fixed-line revenue**



<sup>1</sup> Others include revenue from interconnection charges and data centres.

**Fixed-line capex**

