

Management Discussion and Analysis

Financial Review

Consolidated turnover grew 16% from HK\$13,407 million in 2011 to HK\$15,536 million in 2012. Mobile and fixed-line service revenue increased 2% from HK\$8,468 million in 2011 to HK\$8,635 million in 2012. Higher-value smart device sales made a significant contribution to hardware revenue, which increased 40% from HK\$4,939 million in 2011 to HK\$6,901 million in 2012. Cost of inventories sold grew in line with increased hardware sales, rising 40% from HK\$4,663 million in 2011 to HK\$6,508 million in 2012.

Total operating expenses, excluding cost of inventories sold, decreased from HK\$7,312 million in 2011 to HK\$7,290 million in 2012. The decrease was mainly due to the reduction in customer acquisition costs which fell from HK\$1,155 million in 2011 to HK\$708 million in 2012, as we placed a greater focus on migrating our customers to higher-value mobile services and migration towards a non-subsidised handset business model. The savings in customer acquisition costs were partially offset by 5% inflationary increase in operating expenses and 14% increase in staff costs due to increase in staff size and inflationary impact. In addition, depreciation and amortisation increased 9% from HK\$1,179 million in 2011 to HK\$1,282 million in 2012, as a result of capacity and spectrum expansion.

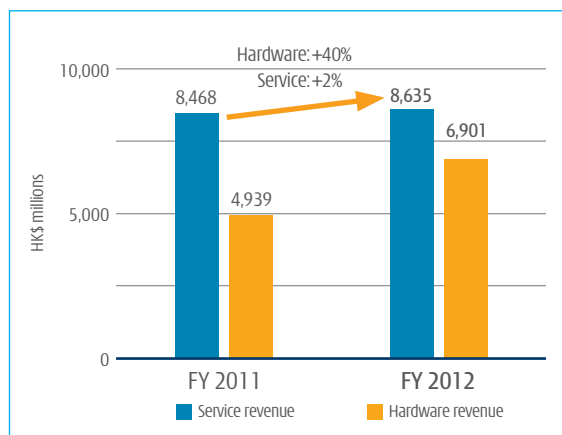
Consolidated EBITDA rose 16% from HK\$2,611 million in 2011 to HK\$3,020 million in 2012. Consolidated EBIT grew from HK\$1,432 million in 2011 to HK\$1,738 million in 2012, an increase of 21%.

Gearing ratio, calculated by dividing net debt by net total capital, was 24% (2011: 26%) as a result of repayment of borrowings. Interest and other finance costs increased from HK\$124 million in 2011 to HK\$166 million in 2012 mainly as a result of the overall increase in prevailing market interest rate.

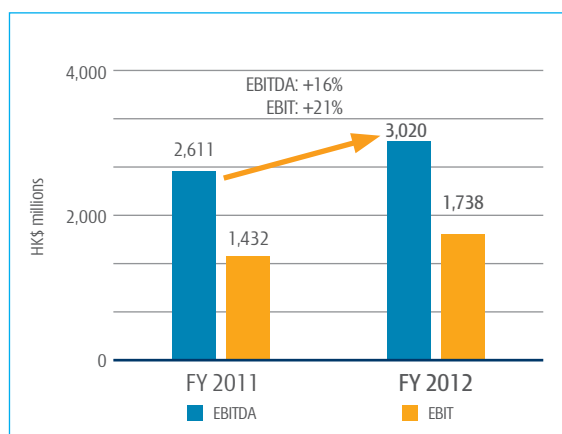
Share of losses of jointly controlled entities in 2012 stood at HK\$3 million, compared to HK\$4 million in 2011. Taxation in 2012 was HK\$54 million, compared to HK\$49 million in 2011.

Overall, the Group reported growth of 20% in profit attributable to shareholders of the Company, from HK\$1,020 million in 2011 to HK\$1,227 million in 2012.

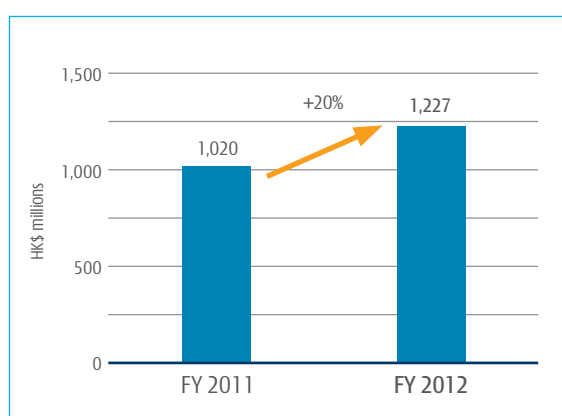
Consolidated turnover



Consolidated EBITDA and EBIT



Profit attributable to shareholders



Business Review

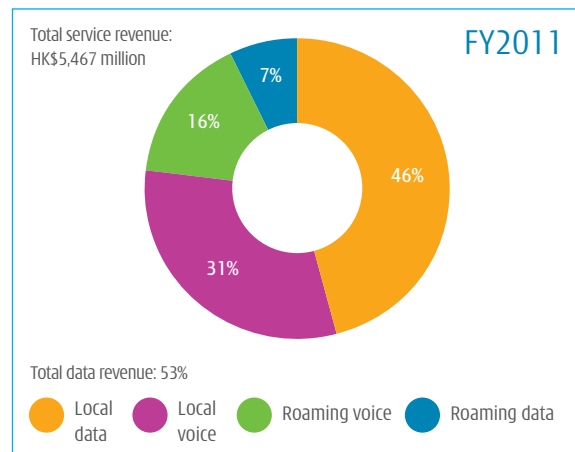
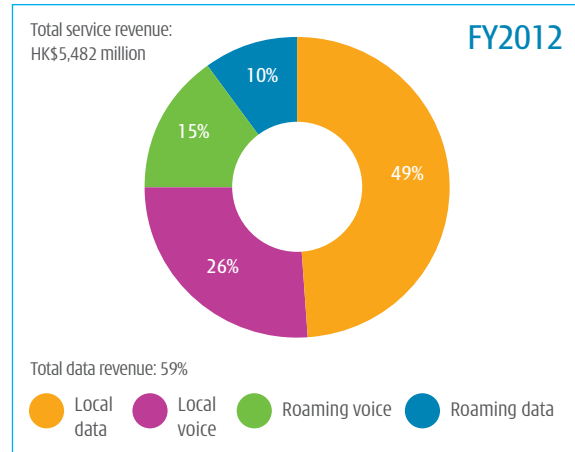
The Group is engaged in two principal businesses - mobile and fixed-line.

Mobile business in Hong Kong and Macau

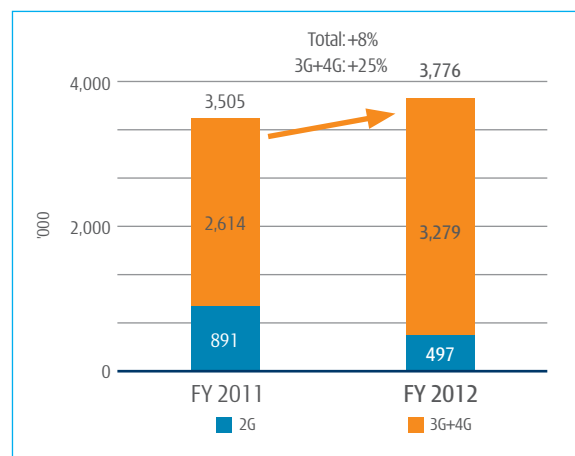
Growth in our mobile telecommunications business continued during 2012. We recorded mobile business turnover of HK\$12,383 million in 2012, a 19% rise from HK\$10,406 million in 2011. This was the result of overwhelming demand for smart devices. Mobile service revenue of HK\$5,482 million in 2012 was comparable to that in 2011 as a 12% increase in data revenue was offset by a 13% reduction in voice revenue. Data services growth momentum continued in 2012 and accounted for 59% of total service revenue, of which roaming data revenue recorded a 32% increase with growing usage of smart devices.

As at 31 December 2012, our Hong Kong and Macau customer base increased 8% to over 3.7 million. Our postpaid 3G and 4G customers accounted for 94% of our postpaid customer base. The number of Hong Kong and Macau postpaid customers totalled 2.0 million as at 31 December 2012.

Mobile service revenue

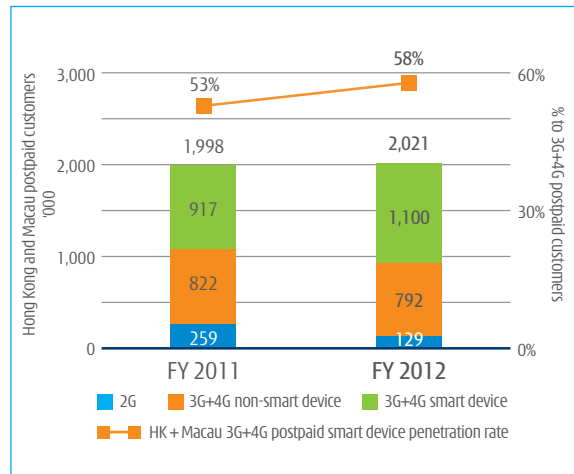


Total customers



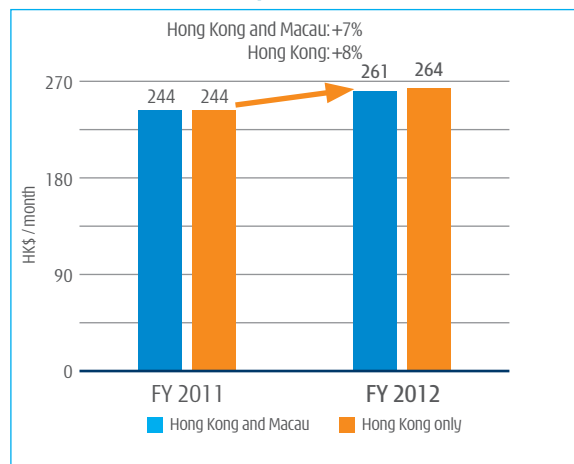
The introduction of new smart devices in 2012 was met with enthusiasm and an increased number of customers have adopted smartphones and tablets. As at 31 December 2012, smart device penetration of our 3G and 4G postpaid customer base in Hong Kong and Macau reached 58%. Blended postpaid ARPU in 2012 was HK\$261, representing an increase of 7% from HK\$244 in 2011. Hong Kong blended postpaid ARPU rose from HK\$244 in 2011 to HK\$264 in 2012, showing a rise of 8% driven by greater data usage and demand for tailored value-added services.

Smart device penetration



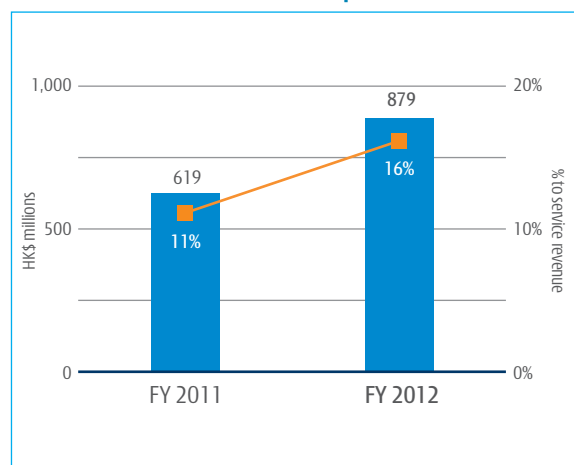
Robust demand for hardware and data services, coupled with effective cost control, translated into a rise in profit. In 2012, EBITDA increased 23% to HK\$2,100 million from HK\$1,712 million in 2011 while EBIT increased 25% from HK\$1,184 million in 2011 to HK\$1,485 million in 2012.

Postpaid ARPU



Capital expenditure on property, plant and equipment amounted to HK\$879 million in 2012, accounting for 16% of mobile service revenue. The increase was mainly due to rollout of our 4G LTE network.

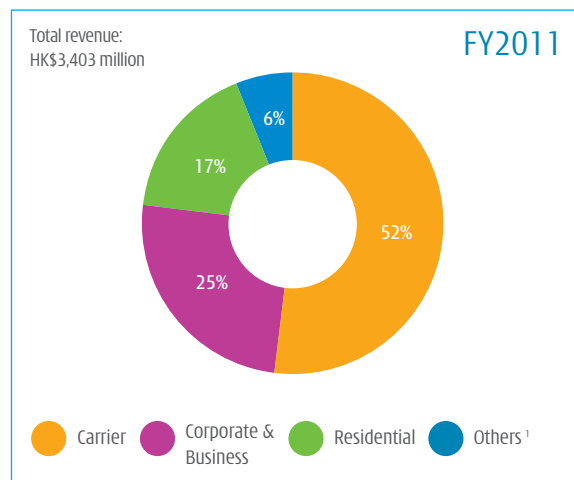
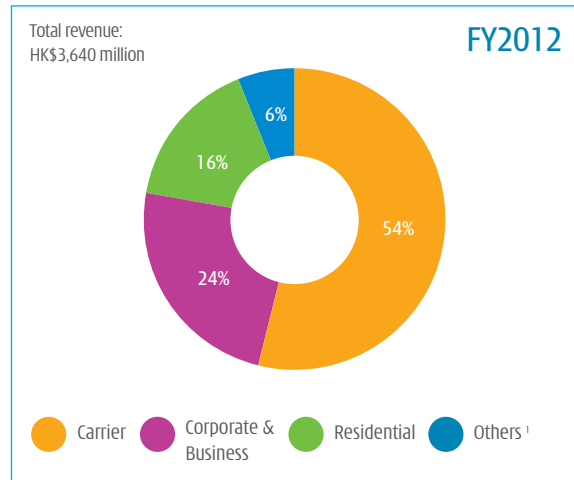
Mobile capex



Fixed-line business

Turnover showed a 7% increase from HK\$3,403 million in 2011 to HK\$3,640 million in 2012. The carrier market contributed more than half of our total revenue, delivering a growth of 10% from HK\$1,781 million in 2011 to HK\$1,958 million in 2012. Revenue from the corporate and business market increased 6% to HK\$891 million in 2012 from HK\$840 million in 2011. Revenue from the residential market in 2012 was HK\$584 million, compared to HK\$583 million in 2011.

Fixed-line revenue



¹ Others include revenue from interconnection charges and data centres.

EBITDA increased 3% from HK\$1,016 million in 2011 to HK\$1,050 million in 2012. EBIT amounted to HK\$383 million in 2012, an increase of 5% compared to HK\$364 million in 2011.

Capital expenditure on property, plant and equipment was HK\$725 million in 2012, accounting for 20% of fixed-line service revenue. The increase was mainly a result of more fibre penetration and revenue-driven projects.

Fixed-line capex

