

Management Discussion and Analysis

Financial Review

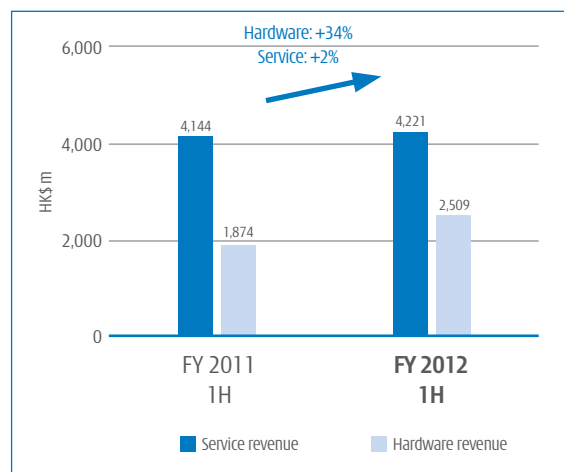
Consolidated turnover of the Group increased by 12% from HK\$6,018 million for the first half of 2011 to HK\$6,730 million for the same period in 2012. Service revenue grew from HK\$4,144 million for the first half of 2011 to HK\$4,221 million for the corresponding period in 2012. Persistent demand for smart devices continued to boost hardware revenue, which increased by 34% from HK\$1,874 million for the first six months of 2011 to HK\$2,509 million for the first half of 2012.

Total operating expenses, including cost of inventories sold, increased from HK\$5,336 million for the first half of 2011 to HK\$5,929 million for the same period in 2012. Cost of inventories sold grew in line with increased hardware sales and rose by 32% from HK\$1,792 million for the first half of 2011 to HK\$2,369 million for the same period in 2012. Staff costs increased by 13% to HK\$346 million for the first half of 2012 from HK\$307 million for the same period in 2011, as a result of an increase in the size of our customer sales and network functions plus inflation. Customer acquisition costs fell from HK\$569 million for the first half of 2011 to HK\$331 million in 2012, as we brought sharper focus to bear on internal upward migration in our mobile business which helps to better control customer acquisition costs. Depreciation and amortisation was HK\$645 million for the first half of 2012, after standing at HK\$561 million for the same period in 2011. The increase was the result of amortisation of additional spectrum acquired. Other operating expenses amounted to HK\$2,238 million in the first half of 2012, a 6% increase compared to HK\$2,107 million in 2011 due to general inflation.

EBITDA rose by 16% from HK\$1,243 million for the first six months of 2011 to HK\$1,446 million for the same period in 2012, while operating profit grew from HK\$682 million for the first half of 2011 to HK\$801 million for the same period in 2012, representing an increase of 17%.

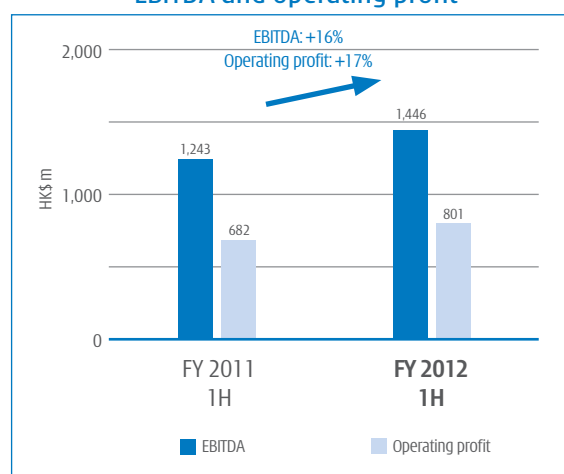
Gearing ratio, calculated by dividing net debt by total equity, was 33%. Interest and other finance costs increased from HK\$57 million for the first half of 2011 to HK\$77 million for the corresponding period in 2012. During the six months ended 30 June 2012, the Group completed a refinancing of its credit facilities. Previous facilities have been replaced with a revolving and term credit facility of HK\$5,500 million, available from a group of international commercial banks up to 14 June 2015.

Consolidated turnover



FY - Financial Year

EBITDA and operating profit



Management Discussion and Analysis

Share of losses of jointly controlled entities for the first half of 2012 amounted to HK\$2 million, compared to share of profits of HK\$1 million for the same period in 2011. Taxation was HK\$28 million for the first half of 2011 while that was HK\$23 million for the same period in 2012.

Overall, the Group reported growth of 15% in net profit attributable to shareholders of the Company, from HK\$494 million for the first six months of 2011 to HK\$568 million for the same period in 2012.

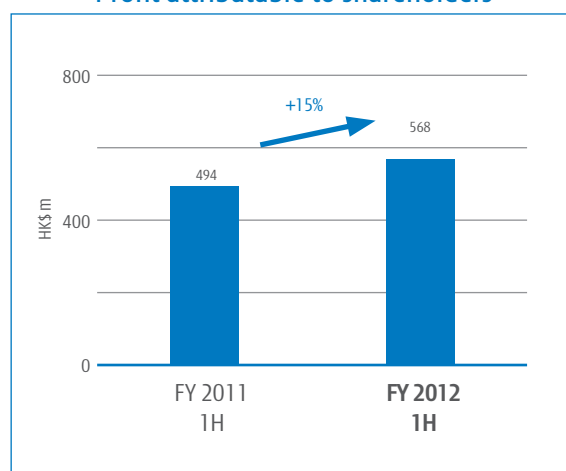
Business Review

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

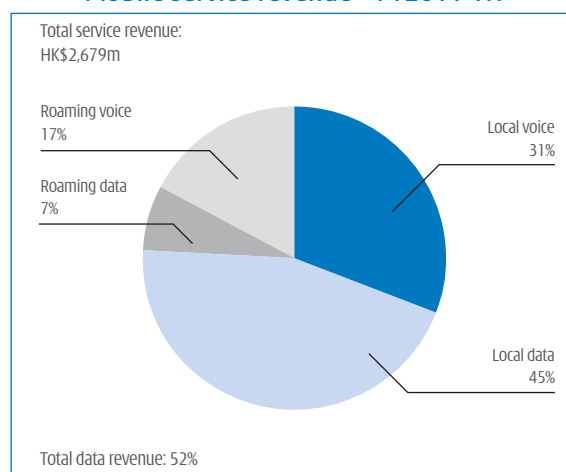
Mobile business in Hong Kong and Macau

Our mobile telecommunications business continued to grow healthily for the first half of 2012. Keen interest in smart devices, together with greater demand for data services, resulted in a 15% increase in mobile turnover from HK\$4,553 million for the first six months of 2011 to HK\$5,241 million for the same period in 2012. Service revenue grew from HK\$2,679 million for the first half of 2011 to HK\$2,732 million for the same period in 2012. Local and roaming data revenue accounted for 58% of mobile service revenue for the period under review in 2012.

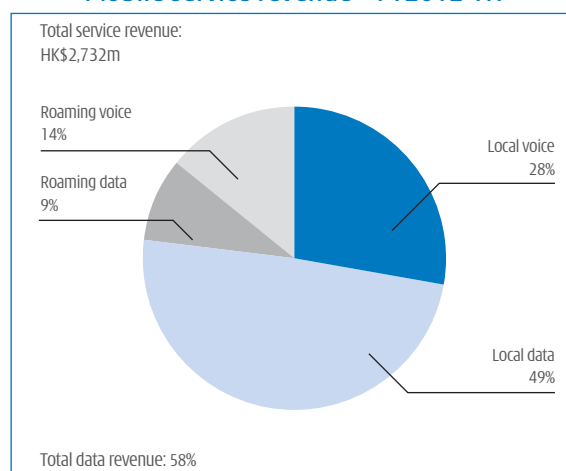
Profit attributable to shareholders



Mobile service revenue - FY2011 1H

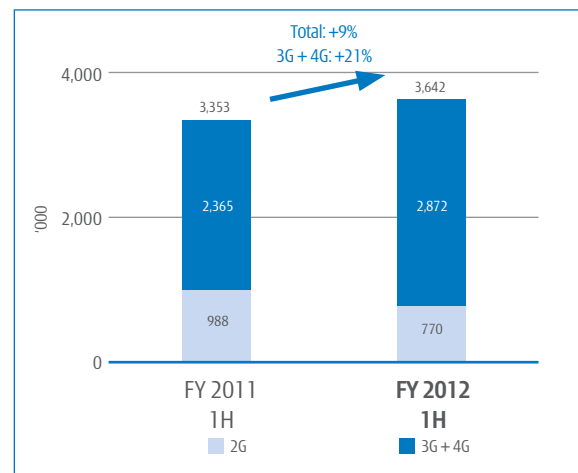


Mobile service revenue - FY2012 1H



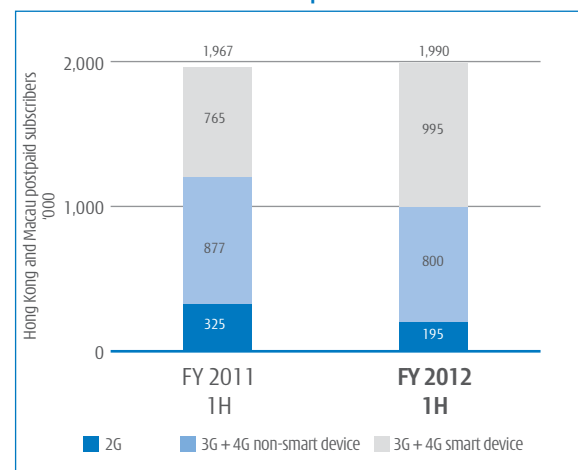
As of 30 June 2012, our Hong Kong and Macau customers totalled 3.64 million. In particular, our 3G and 4G customer numbers were 2.87 million, together accounted for approximately 79% of the customer base. The total number of Hong Kong and Macau postpaid customers stood at 1.99 million as of 30 June 2012.

Total subscribers

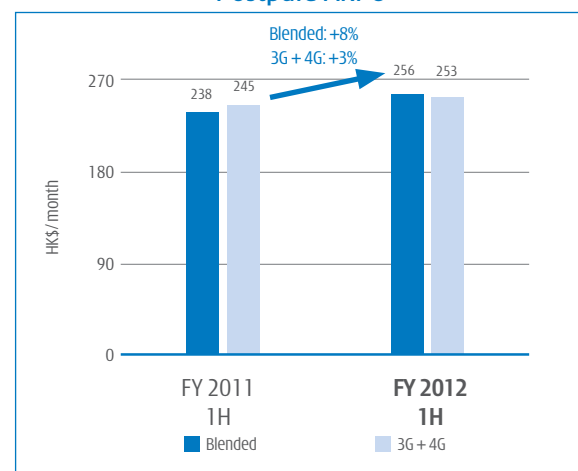


Penetration of the smart device continued to deepen, thanks to our provision of a full lineup of smartphones and tablets. As of 30 June 2012, 58% of our 3G and 4G postpaid customers in Hong Kong were smart device users. Internal upward migration from non-smartphone to smartphones, coupled with customer-oriented tariff packages, encouraged greater use of data and other mobile services. This, in turn, translated into steady ARPU growth. Blended postpaid ARPU for the first half of 2012 stood at HK\$256, representing an increase of 8% from HK\$238 for the same period in 2011. Meanwhile, 3G and 4G blended postpaid ARPU rose from HK\$245 for the first half of 2011 to HK\$253 for the same period in 2012.

Smart device penetration



Postpaid ARPU



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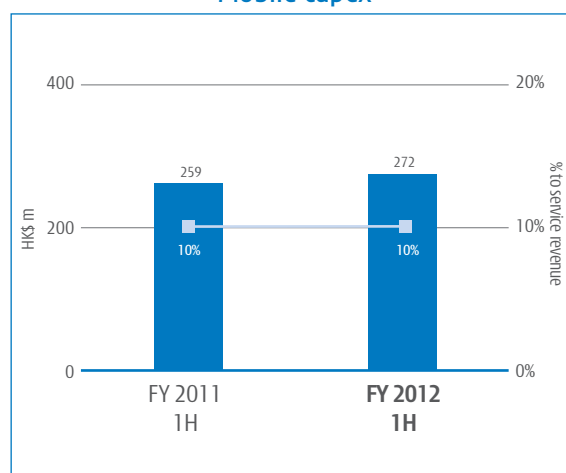
Driven by growing turnover from hardware sales and data services, as well as cautious cost control, EBITDA increased by 28% from HK\$778 million in the first half of 2011 to HK\$992 million for the same period in 2012. Operating profit also reported an increase of 26% from HK\$537 million for the first six months of 2011 to HK\$675 million for the same period in 2012.

Capital expenditure amounted to HK\$272 million for the first half of 2012, while capital expenditure to service revenue stood at 10%.

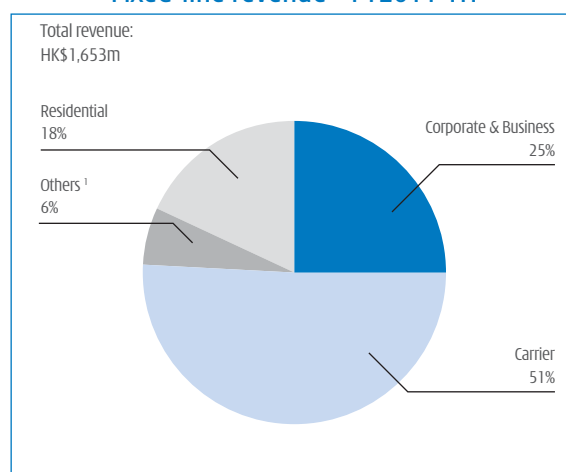
Fixed-line business

Turnover saw an increase of 4% from HK\$1,653 million for the first six months of 2011 to HK\$1,725 million for the same period in 2012. The carrier market continued to be the largest revenue source, showing growth of 8% from HK\$845 million in the first half of 2011 to HK\$909 million for the same period in 2012. Revenue from the corporate and business market was HK\$426 million for the first half of 2012, compared to HK\$413 million for the same period in 2011. We see a steadily growing customer base in the residential market, however, intense price competition put pressure on revenue which resulted at HK\$288 million for the first half of 2012, compared to HK\$296 million for the same period in 2011.

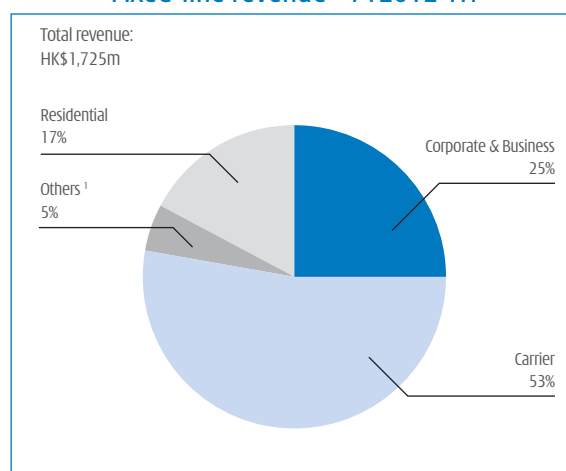
Mobile capex



Fixed-line revenue - FY2011 1H



Fixed-line revenue - FY2012 1H



¹ Others include revenue from interconnection charges and data centres.

Keen competition in the residential market, as well as increased investment in customer acquisition and retention, resulted in a decrease in EBITDA of 2%, from HK\$519 million for the first half of 2011 to HK\$510 million for the same period in 2012. Operating profit amounted to HK\$182 million for the first half of 2012, compared to HK\$198 million for the same period in 2011.

Capital expenditure was HK\$295 million for the first half of 2012 while capital expenditure to revenue increased to 17%.

Fixed-line capex

