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HKT Trust

(a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)

and

HKT Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6823)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2011

The directors of HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) and HKT Limited (the “Company” or “HKT”) are pleased to announce the audited consolidated results of the HKT Trust and of the Company together with the Company’s subsidiaries (collectively the “Group”) for the year ended December 31, 2011.

- Total revenue increased by 7% to HK\$19,825 million
- Total EBITDA increased by 2% to HK\$7,411 million
- Profit attributable to holders of Share Stapled Units increased by 32% to HK\$1,221 million; basic earnings per Share Stapled Unit increased by 27% to 26.84 HK cents
- Adjusted funds flow for the year was HK\$2,387 million; annual adjusted funds flow per Share Stapled Unit was 37.20 HK cents
- Final distribution per Share Stapled Unit of 3.36 HK cents

MANAGEMENT REVIEW

HKT finished the 2011 financial year in a strong position and delivered an excellent set of financial results for holders of Share Stapled Units which reflected good momentum across all business segments. The results exceeded the key forecasts provided in HKT's Global Offering prospectus, a notable achievement in HKT's first year of listing on the Main Board of The Stock Exchange of Hong Kong Limited.

Total revenue increased by 7% to HK\$19,825 million for the year ended December 31, 2011, due to improved results from the Telecommunications Services ("TSS") business and an impressive performance from the Mobile business. Total EBITDA for the year was HK\$7,411 million, an increase of 2% over the previous year and exceeding the forecast of HK\$7,385 million.

Profit attributable to holders of Share Stapled Units was HK\$1,221 million, a substantial increase of 32% over the previous year and 31% above the forecast of HK\$934 million. The growth was mainly attributable to the higher EBITDA achieved from the TSS and Mobile businesses, savings from both depreciation expenses and net finance costs, and lower tax expenses during the year.

Annual adjusted funds flow for the year ended December 31, 2011 reached HK\$2,387 million, an increase of 18% over the previous year and again above the forecast of HK\$2,356 million. Annual adjusted funds flow per Share Stapled Unit was 37.20 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution¹ of 3.36 HK cents per Share Stapled Unit for the year ended December 31, 2011.

OUTLOOK

HKT used US\$1 billion out of the proceeds of its listing in November 2011 to reduce its indebtedness, resulting in a stronger financial position which will allow the Company to pursue further growth of, and investment in, its well-established businesses.

It is our intention to develop our mobile business substantially in 2012. We plan to officially launch our LTE service delivering speeds of up to 100 Mbps in the first half of 2012, when more LTE-capable mobile devices become available in the market. This will complement our existing suite of high-speed mobile data offerings.

We will further expand our fiber coverage while at the same time deploying multiple technologies to serve customers' varying needs for high-speed broadband connectivity. In anticipation of a growth in demand, we are confident that there are good prospects for our global connectivity business given its advanced infrastructure backbone and the global pool of talented staff.

HKT's management and employees will work together to take the company to a higher level in terms of network capability, product innovation and customer service. Barring unforeseen circumstances, we are confident of achieving our objectives in 2012.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse)
	H1	H2	Full Year	H1	H2	Full Year	y-o-y
Revenue							
TSS	8,071	8,152	16,223	8,259	9,036	17,295	7%
Mobile	838	871	1,709	919	1,048	1,967	15%
Other Businesses	398	399	797	479	331	810	2%
Eliminations	(101)	(101)	(202)	(120)	(127)	(247)	(22)%
Total revenue	9,206	9,321	18,527	9,537	10,288	19,825	7%
Cost of sales	(3,635)	(3,816)	(7,451)	(3,758)	(4,391)	(8,149)	(9)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(2,048)	(1,779)	(3,827)	(2,156)	(2,109)	(4,265)	(11)%
EBITDA²							
TSS	3,373	3,624	6,997	3,386	3,619	7,005	0%
Mobile	152	203	355	218	292	510	44%
Other Businesses	(2)	(101)	(103)	19	(123)	(104)	(1)%
Total EBITDA²	3,523	3,726	7,249	3,623	3,788	7,411	2%
TSS EBITDA Margin²	42%	44%	43%	41%	40%	41%	
Mobile EBITDA Margin²	18%	23%	21%	24%	28%	26%	
Total EBITDA Margin²	38%	40%	39%	38%	37%	37%	
Depreciation and amortization	(2,122)	(2,196)	(4,318)	(2,132)	(2,118)	(4,250)	2%
Gain/(Loss) on disposal of property, plant and equipment, net	(1)	15	14	1	4	5	(64)%
Other gains/(losses), net	–	40	40	(28)	–	(28)	NA
Finance costs, net	(793)	(769)	(1,562)	(733)	(771)	(1,504)	4%
Share of results of associates and jointly controlled companies	(5)	(68)	(73)	(5)	(14)	(19)	74%
Profit before income tax	602	748	1,350	726	889	1,615	20%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Total EBITDA²	3,523	3,726	7,249	3,623	3,788	7,411	2%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(365)	(693)	(1,058)	(613)	(802)	(1,415)	(34)%
Capital expenditures	(623)	(941)	(1,564)	(721)	(848)	(1,569)	0%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,535	2,092	4,627	2,289	2,138	4,427	(4)%
Adjusted for:							
Tax payment	(24)	(19)	(43)	(24)	(106)	(130)	(202)%
Net finance costs paid	(886)	(703)	(1,589)	(660)	(662)	(1,322)	17%
Changes in working capital	(402)	(574)	(976)	(253)	(335)	(588)	40%
Adjusted funds flow³	1,223	796	2,019	1,352	1,035	2,387	18%
Annual adjusted funds flow per Share Stapled Unit (HK cents)⁴			NA			37.20	

- Note 1 A final distribution per Share Stapled Unit for the year ended December 31, 2011 is calculated on the annual adjusted funds flow in 2011, multiplied by the number of listing days in 2011 (i.e. 33 days) and divided by the number of calendar days in 2011 (i.e. 365 days).*
- Note 2 EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and jointly controlled companies, and the Group's share of results of an associate and jointly controlled companies. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*
- Note 3 Adjusted Funds Flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, net finance costs paid, and adjusted for changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The Group's Adjusted Funds Flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The Adjusted Funds Flow may be used for debt repayment.*
- Note 4 Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year ended December 31, 2011 by the number of issued Share Stapled Units as at December 31, 2011.*
- Note 5 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*
- Note 6 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents.*
- Note 7 Group capital expenditure includes additions to property, plant and equipment, and interests in leasehold land.*

OPERATING DRIVERS⁵	2010		2011		Better/ (Worse) y-o-y
	H1	H2	H1	H2	
Exchange lines in service ('000)	2,587	2,590	2,625	2,636	2%
Business lines ('000)	1,180	1,183	1,217	1,228	4%
Residential lines ('000)	1,407	1,407	1,408	1,408	0%
Total broadband access lines ('000)	1,298	1,367	1,437	1,518	11%
(Consumer, business and wholesale customers)					
Retail consumer broadband subscribers ('000)	1,148	1,215	1,285	1,363	12%
Retail business broadband subscribers ('000)	114	115	116	119	3%
Traditional data (Exit Gbps)	953	1,045	1,243	1,501	44%
Retail IDD minutes ('M mins)	674	652	618	591	(9)%
Mobile subscribers ('000)	1,469	1,484	1,506	1,535	3%
3G subscribers ('000)	606	667	880	1,062	59%
2G post-paid subscribers ('000)	319	250	43	–	NA
2G prepaid subscribers ('000)	544	567	583	473	(17)%

Telecommunications Services (“TSS”)

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Local Telephony Services	1,921	1,679	3,600	1,653	1,744	3,397	(6)%
Local Data Services	2,627	2,643	5,270	2,660	3,020	5,680	8%
International Telecommunications Services	1,851	1,863	3,714	2,188	2,011	4,199	13%
Other Services	1,672	1,967	3,639	1,758	2,261	4,019	10%
	—	—	—	—	—	—	
TSS Revenue	8,071	8,152	16,223	8,259	9,036	17,295	7%
Cost of sales	(3,130)	(3,362)	(6,492)	(3,205)	(3,989)	(7,194)	(11)%
Operating costs before depreciation and amortization	(1,568)	(1,166)	(2,734)	(1,668)	(1,428)	(3,096)	(13)%
	—	—	—	—	—	—	
TSS EBITDA²	3,373	3,624	6,997	3,386	3,619	7,005	0%
	—	—	—	—	—	—	
TSS EBITDA margin²	42%	44%	43%	41%	40%	41%	

The structural transformation of service focus from voice to data continued in the TSS segment, helping drive a remarkable 7% increase in revenue to HK\$17,295 million for the year ended December 31, 2011. EBITDA for the year held firm at HK\$7,005 million.

Local Telephony Services. Local telephony services revenue for the year ended December 31, 2011 was HK\$3,397 million, compared to HK\$3,600 million a year earlier. With an increasing number of customers upgrading from the traditional fixed-line service to our innovative **eye** multimedia service, which yields higher ARPU, local telephony services revenue in the second half of 2011 rebounded to HK\$1,744 million, up 6% from the first half of 2011. Total fixed lines in service at the end of December 2011 increased to 2,636,000, and the **eye** penetration of our residential customer base enlarged to 15% for the year.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 8% year-on-year to HK\$5,680 million for the year ended December 31, 2011. The increase was underpinned by an accelerated growth of 11% in broadband network revenue, which was attributable to the successful promotion of our fiber broadband service in the mass market since June 2011. The encouraging customer response pushed the total number of broadband access lines up by 11% to 1,518,000 at the end of December 2011. The Group will continue with its unique fixed and wireless broadband service proposition as a differentiator in the broadband market. Meanwhile, local data revenue also recorded a healthy growth due to increased business demand for local data services.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2011 increased significantly by 13% year-on-year to HK\$4,199 million. The robust performance was driven by the increase of wholesale voice and international connectivity services revenue due to the continued high international bandwidth demand. This line of business also benefited from the integration of certain assets and businesses from Reach Ltd. (“Reach”), which resulted in efficiency gains during the year and enhanced our competitive position for international connectivity services.

Other Services. Other services revenue primarily comprised revenue from the sales of network equipment and customer premises equipment (“CPE”), provision of technical and maintenance subcontracting services and contact centre services (“Teleservices”). Other services revenue for the year ended December 31, 2011 increased by 10% year-on-year to HK\$4,019 million, primarily because of stronger CPE sales and network equipment sales for large telecommunications projects in the generally benign local economic environment.

Mobile

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Mobile Revenue	838	871	1,709	919	1,048	1,967	15%
Mobile EBITDA²	152	203	355	218	292	510	44%
Mobile EBITDA margin²	18%	23%	21%	24%	28%	26%	

Mobile business continued to deliver a strong performance in 2011, with total mobile revenue increasing by 15% to HK\$1,967 million for the year ended December 31, 2011. Mobile service revenue increased by 17% during the year, due to an enlarged 3G subscriber base with a higher ARPU. Driven by increased mobile data usage in the wake of more data hungry applications, mobile data revenue surged by 69% in 2011, and accounted for 59% of mobile service revenue.

The Group enjoys unparalleled competitive cost advantages because of its unique fixed and mobile integrated network, which is supported by an extensive fiber backhaul and more than 9,500 Wi-Fi hotspots. Benefiting from the lower incremental operating costs, especially after the integration of the 2G and 3G networks during the year, the Mobile business reported a spectacular growth of 44% in EBITDA to HK\$510 million and a significant improvement in EBITDA margin from 21% a year ago to 26%.

PCCW mobile’s total subscribers reached 1,535,000 at the end of December 2011, an increase of 3% over the previous year. 3G subscribers expanded 59% to 1,062,000 while 3G subscribers as a percentage of the total subscriber base increased to 69% at the end of December 2011, compared to 45% a year earlier.

The accelerated data growth and a larger 3G subscriber base, consistent with our focus on higher-value customers, continued to raise the blended post-paid ARPU, which increased 29% to HK\$184 as at December 31, 2011 from HK\$143 as at December 31, 2010.

Other Businesses

Other Businesses primarily comprised Unihub China Information Technology Company Limited (the “ZhongYing JV”), which provides network integration and related services to telecommunications operators in the PRC. Revenue from Other Businesses increased by 2% to HK\$810 million for the year ended December 31, 2011.

Eliminations

Eliminations was HK\$247 million for the year ended December 31, 2011, as compared to HK\$202 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed among the Group’s business units.

Cost of Sales

Cost of sales for the year ended December 31, 2011 increased by 9% to HK\$8,149 million. The increase in cost of sales was in line with the growth in revenue.

General and Administrative Expenses

The Group continued to implement cost management measures appropriate for the challenging operating environment, while at the same time investing for business growth in 2011. Accordingly, general and administrative expenses increased 5% to HK\$8,510 million for the year ended December 31, 2011. The increase in expenses was primarily due to increased rental expenses for retail shops, larger publicity and promotion spending on growth businesses such as fiber broadband, as well as higher staff costs for quality staff to support business growth. During the year, depreciation and amortization expenses decreased by 2% to HK\$4,250 million, mainly due to lower depreciation expenses reflecting the Group’s disciplined capital expenditures over the past few years.

EBITDA²

Solid performance in the TSS business and significant improvement in the Mobile business led to an overall EBITDA improvement in 2011. EBITDA increased by 2% to HK\$7,411 million for the year ended December 31, 2011.

Finance Costs, Net

Net finance costs decreased by 4% to HK\$1,504 million for the year ended December 31, 2011 primarily due to the interest savings after the repayment in November 2011 of the US\$1 billion notes due 2011.

Income Tax

Income tax expenses for the year ended December 31, 2011 were HK\$344 million, as compared to HK\$378 million a year ago, with an effective tax rate of 21% (2010: 28%). The decrease in tax expenses was primarily due to the utilization of previously unrecognized tax losses as certain loss-making companies had turned profitable during the year. The rate is higher than the statutory tax rate of 16.5%, mainly due to higher tax rates for overseas entities.

Non-controlling Interests

Non-controlling interests of HK\$50 million primarily represented the net profit attributable to the minority shareholders of the ZhongYing JV.

Profit Attributable to Holders of Share Stapled Units/Shares of the Company

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2011 increased by 32% to HK\$1,221 million (2010: HK\$925 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholders' return and a sound capital position. The Group also makes adjustments to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital.

The Global Offering completed in November 2011 generated net proceeds of HK\$8,944 million, HK\$7,800 million of which was used towards repayment of the Group's debt.

In November 2011, the Group redeemed US\$1,000 million in bonds which came due on maturity. During the year, the Group also reduced its outstanding bank loans by HK\$3,920 million. As a result, the Group's gross debt⁶ fell to HK\$23,583 million as at December 31, 2011 (December 31, 2010: HK\$35,303 million). Cash and cash equivalents totaled HK\$2,226 million as at December 31, 2011 (December 31, 2010: HK\$5,456 million). The Group's net debt⁶ was HK\$21,357 million as at December 31, 2011 (December 31, 2010: HK\$29,847 million).

As at December 31, 2011, the Group had ample liquidity as evidenced by committed bank loan facilities totaling HK\$20,444 million, of which HK\$8,559 million remained undrawn.

The Group's gross debt⁶ to total assets was 36% as at December 31, 2011 (2010: 52%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2011, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE⁷

Group capital expenditure for the year ended December 31, 2011 was HK\$1,600 million (2010: HK\$1,613 million). In addition, the Group received fixed assets of HK\$629 million from the integration of Reach. Major outlays for the year were mainly expanded investments and network enhancement in meeting demand on high-speed broadband services, quadruple-play services and international networks.

Going forward, the Group will continue to invest in its delivery platforms and networks taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

Market risk arises from foreign currency and interest rate exposures related to cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2011, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2011, certain assets of the Group with an aggregate carrying value of HK\$62 million (2010: HK\$70 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2010	2011
Performance guarantees	337	240
Others	13	3
	350	243

The Group is subject to certain corporate guarantee obligations to guarantee the performance of its wholly-owned subsidiaries and affiliates in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors of the Company are of the opinion that any resulting liability would not materially affect the financial position of the Group.

HUMAN RESOURCES

As at December 31, 2011, the Group had approximately 15,300 employees (2010: 15,200). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the United States and the Philippines. The Group has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 3.36 HK cents per Share Stapled Unit, in respect of the year ended December 31, 2011 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 3.36 HK cents per ordinary share, in respect of the same period), subject to the approval of the registered unit holders of the HKT Trust and the shareholders of the Company at the forthcoming combined annual general meeting of the HKT Trust and the Company. The Trustee-Manager and the Company will in due course issue a notice of closure of the registers of members and the date of combined annual general meeting as well as the record date and the approximate payment date for the proposed final distribution.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Under the trust deed dated November 7, 2011 constituting the HKT Trust which was entered into between the Trustee-Manager and the Company (the “Trust Deed”) and for so long as the Trust Deed remains in effect, the Share Stapled Units cannot be repurchased or redeemed by the HKT Trust and the Company unless and until specific regulations which expressly permit repurchase or redemption are introduced by the Securities and Futures Commission. Therefore, the holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units, the HKT Trust and the Company are not allowed to repurchase their own Share Stapled Units.

For the period from November 29, 2011 (the date on which the Share Stapled Units were first listed on The Stock Exchange of Hong Kong Limited) (the “Listing Date”) to December 31, 2011, none of the HKT Trust (including the Trustee-Manager), the Company or the Company’s subsidiaries purchased, sold or redeemed any Share Stapled Units.

AUDIT COMMITTEE

The Trustee-Manager’s Audit Committee and the Company’s Audit Committee have reviewed the accounting policies adopted by the Group and the Trustee-Manager, and the audited consolidated financial statements of the Group for the year ended December 31, 2011 and the financial statements of the Trustee-Manager for the period from June 14, 2011 (date of incorporation) to December 31, 2011.

CORPORATE GOVERNANCE PRACTICES

The HKT Trust, the Trustee-Manager and the Company are committed to establishing and maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

The HKT Trust and the Company have applied the principles and complied with all relevant code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the period from the Listing Date to December 31, 2011. Code Provision B.1 of the CG Code requiring the establishment of a Remuneration Committee is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by the new Code Provision A.5.1, effective from April 1, 2012, is also not relevant to the Trustee-Manager, and therefore will not be complied with.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.hkt.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2011 annual report will be despatched to holders of the Share Stapled Units and available on the above websites in due course.

By order of the boards
HKT Management Limited
and
HKT Limited
Philana WY POON
Group General Counsel and Company Secretary

Hong Kong, February 27, 2012

AUDITED CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND HKT LIMITED

For the year ended December 31, 2011

(In HK\$ million except for earnings per Share Stapled Unit/share)

	Note	2010	2011
Turnover	2	18,527	19,825
Cost of sales		(7,451)	(8,149)
General and administrative expenses		(8,131)	(8,510)
Other gains/(losses), net	3	40	(28)
Finance costs, net		(1,562)	(1,504)
Share of results of jointly controlled companies		(73)	(2)
Share of results of an associate		—	(17)
Profit before income tax	2, 4	1,350	1,615
Income tax	5	(378)	(344)
Profit for the year		<u>972</u>	<u>1,271</u>
Attributable to:			
Holders of Share Stapled Units/shares of the Company		925	1,221
Non-controlling interests		47	50
		<u>972</u>	<u>1,271</u>
Earnings per Share Stapled Unit/share of the Company	6		
Basic and diluted		<u>21.20 cents</u>	<u>26.84 cents</u>

AUDITED CONSOLIDATED BALANCE SHEET OF HKT TRUST AND HKT LIMITED

As at December 31, 2011

(In HK\$ million)

	Note	2010	2011
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		14,322	14,253
Interests in leasehold land		329	316
Goodwill		35,892	35,893
Intangible assets		5,545	4,872
Interest in an associate		—	95
Interest in jointly controlled companies		474	577
Available-for-sale financial assets		48	72
Derivative financial instruments		152	275
Deferred income tax assets		3	3
Other non-current assets		448	498
		57,213	56,854
Current assets			
Prepayments, deposits and other current assets		2,045	2,273
Inventories		832	1,076
Derivative financial instruments		17	—
Trade receivables, net	7	2,104	2,541
Cash and cash equivalents		5,456	2,226
Income tax recoverable		—	68
		10,454	8,184

AUDITED CONSOLIDATED BALANCE SHEET OF HKT TRUST AND HKT LIMITED
(CONTINUED)

As at December 31, 2011

(In HK\$ million)

	Note	2010	2011
Current liabilities			
Short-term borrowings		(7,800)	(31)
Trade payables	8	(1,568)	(1,532)
Accruals and other payables		(2,019)	(2,315)
Carrier licence fee liabilities		(146)	(190)
Amounts due to related companies		(58)	(29)
Amounts due to fellow subsidiaries and the ultimate holding company		(4,045)	(1,282)
Advances from customers		(1,583)	(1,483)
Current income tax liabilities		(14)	–
		(17,233)	(6,862)
Net current assets/(liabilities)		(6,779)	1,322
Total assets less current liabilities		50,434	58,176
Non-current liabilities			
Long-term borrowings		(27,029)	(23,470)
Derivative financial instruments		(102)	–
Deferred income tax liabilities		(2,081)	(1,991)
Deferred income		(728)	(893)
Carrier licence fee liabilities		(924)	(838)
Other long-term liabilities		(57)	(51)
		(30,921)	(27,243)
Net assets		19,513	30,933
CAPITAL AND RESERVES			
Issued capital of the Company		–	6
Retained profits		2,853	4,066
Other reserves		16,498	26,684
Equity attributable to holders of Share Stapled Units/shares of the Company		19,351	30,756
Non-controlling interests		162	177
Total equity		19,513	30,933

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the period from June 14, 2011 (Date of Incorporation) to December 31, 2011

(In HK\$'000)

	For the period from June 14, 2011 (date of incorporation) to December 31, 2011
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Results for the period

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BALANCE SHEET OF HKT MANAGEMENT LIMITED

As at December 31, 2011

(In HK\$'000)

	2011
--	-------------

ASSETS AND LIABILITIES

Current assets

—

Current liabilities

—

Net current assets

—

Net assets

—

CAPITAL AND RESERVES

Share capital

—

Reserves

—

Total equity

—

NOTES

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES

In accordance with trust deed, HKT Trust and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust's consolidated financial statements for the year ended December 31, 2011 comprise the consolidated financial statements of the HKT Trust and its subsidiary, HKT Limited (or the "Company") (together the "Group"), and the Group's interests in an associate and jointly controlled companies. The consolidated financial statements of HKT Limited for the year ended December 31, 2011 comprise the financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in an associate and jointly controlled companies, and the Company's balance sheet.

HKT Trust controls HKT Limited and the sole activity of HKT Trust during the year ended December 31, 2011 was investing in HKT Limited. Therefore the consolidated results and financial position that would be presented in the consolidated financial statements of HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The trustee-manager and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited together. The consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred as "The HKT Trust and HKT Limited consolidated financial statements".

HKT Management Limited ("Trustee-Manager"), an indirect wholly-owned subsidiary of PCCW Limited, whose financial statements, are not consolidated by HKT Trust and HKT Limited, is required by the trust deed to prepare and publish financial statements prepared on an unconsolidated basis, as such the income statement and balance sheet of the Trustee-Manager only present the results and financial position attributable to the Trustee-Manager. The financial statements of the Trustee-Manager are using accounting policies consistent with those adopted for the preparation of the consolidated financial statements of the Group.

During the period ended December 31, 2011, the Trustee-Manager did not incur any costs for administering HKT Trust and therefore has not recognized any expenses.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- available-for-sale financial assets; and
- derivative financial instruments.

The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are set out below:

i. Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

ii. Impairment of assets (other than investments in equity securities and other receivables)

At each balance sheet date, management of the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- goodwill;
- intangible assets;
- interests in jointly controlled companies; and
- interest in an associate

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the consolidated income statements whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

iii. Revenue recognition

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period. The Group is required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

iii. Revenue recognition (Continued)

The Group offers certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

iv. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

v. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year/period. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these disputes or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

vi. Recognition of intangible asset – Carrier licences

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities. To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Group. Had a different discount rate been used to determine the fair value, the Group's results of operations and financial position could be materially different.

2. SEGMENT INFORMATION

The chief operating decision-maker (the “CODM”) is the Group’s senior executive management collectively. The CODM reviews the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from both geographic and product perspectives. From a product perspective, management assesses the performance of the following segments:

- Telecommunications Services (“TSS”) is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical, maintenance and subcontracting services and teleservices businesses.
- Mobile includes the Group’s mobile telecommunications businesses in Hong Kong.
- Other businesses of the Group’s primarily comprise the ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization (“EBITDA”). EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and jointly controlled companies and the Group’s share of results of an associate and jointly controlled companies.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statements.

2. SEGMENT INFORMATION (CONTINUED)

Information regarding the Group's reportable segments as provided to the CODM is set out below:

For the year ended December 31, 2010

(In HK\$ million)

	TSS	Mobile	Other Businesses	Eliminations	Consolidated
REVENUE					
Total Revenue	16,223	1,709	797	(202)	18,527
RESULTS					
EBITDA	6,997	355	(103)	—	7,249

For the year ended December 31, 2011

(In HK\$ million)

	TSS	Mobile	Other Businesses	Eliminations	Consolidated
REVENUE					
Total Revenue	17,295	1,967	810	(247)	19,825
RESULTS					
EBITDA	7,005	510	(104)	—	7,411

A reconciliation of total segment EBITDA to profit before income tax is provided as follows:

In HK\$ million	2010	2011
Total segment EBITDA	7,249	7,411
Gain on disposal of property, plant and equipment, net	14	5
Depreciation and amortization	(4,318)	(4,250)
Other gains/(losses), net	40	(28)
Finance costs, net	(1,562)	(1,504)
Share of results of jointly controlled companies	(73)	(2)
Share of results of an associate	—	(17)
Profit before income tax	1,350	1,615

2. SEGMENT INFORMATION (CONTINUED)

The following table sets out information about the geographical location of the Group's revenue from external customers. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

In HK\$ million	Revenue from external customers	
	2010	2011
Hong Kong (place of domicile)	15,527	16,664
Mainland China (excluding Hong Kong) and Taiwan	1,243	1,477
Others	1,757	1,684
	18,527	19,825

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$54,485 million and HK\$56,504 million as at December 31, 2010 and 2011 respectively. And the total of these non-current assets located in other countries are HK\$2,525 million and HK\$2,806 million as at December 31, 2010 and 2011 respectively.

3. OTHER GAINS/(LOSSES), NET

In HK\$ million	2010	2011
Net gain/(loss) on cash flow hedging instruments transferred from equity	(1)	1
Net realized gain on disposal of subsidiaries	41	–
Impairment loss on an interest in a jointly controlled company	–	(16)
Others	–	(13)
	40	(28)

4. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging and crediting the following:

(a) Staff costs

In HK\$ million	2010	2011
Salaries, bonuses and other benefits	1,420	1,439
Retirement costs for staff under defined contribution retirement schemes	169	181
	1,589	1,620

4. PROFIT BEFORE INCOME TAX (CONTINUED)

(b) Other items

In HK\$ million	2010	2011
Crediting:		
Gross rental income	25	24
Gain on disposal of property, plant and equipment, net	14	5
Charging:		
Impairment loss on doubtful debts	97	125
Provision for inventory obsolescence	9	7
Depreciation of property, plant and equipment	2,342	2,252
Operating costs of property, plant and equipment, net	83	436
Amortization of land lease premium	13	13
Amortization of intangible assets	1,963	1,985
Cost of inventories sold	2,510	2,871
Cost of sales, excluding inventories sold	4,941	5,278
Exchange losses, net	61	7
Less: Cash flow hedges: transferred from equity	(54)	(11)
Auditor's remuneration	7	10
Operating lease rental		
- equipment	22	14
- other assets (including property rentals)		
- recorded under general and administrative expenses	427	509
- recorded under cost of sales	68	86

5. INCOME TAX

In HK\$ million	2010	2011
Hong Kong profits tax		
- provision for current year	3	390
Overseas tax		
- provision for current year	33	44
Movement of deferred income tax	342	(90)
	378	344

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits during the year.

Overseas tax has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

6. EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2010	2011
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	925	1,221
Number of Share Stapled Units/shares (Note)		
Weighted average number of Share Stapled Units/ordinary shares for the purpose of basic earnings per Share Stapled Unit/share of the Company	4,363,376,792	4,549,022,496
Weighted average number of Share Stapled Units/ordinary shares for the purpose of diluted earnings per Share Stapled Unit/share of the Company	4,363,376,792	4,549,022,496

The calculation of earnings per Share Stapled Unit/share of the Company for the year ended December 31, 2010 is based on the consolidated profit attributable to holders of Share Stapled Units/shares of the Company of HK\$925 million and 4,363,376,792 shares in issue as if the Share Stapled Units/shares of the Company have been issued throughout the year.

(Note: The Unaudited Pro Forma basic/diluted earnings per Share Stapled Unit/share were 14.42 HK cents and 19.03 HK cents, respectively, for December 31, 2010 and December 31, 2011 and is calculated by dividing the earnings attributable to Share Stapled Units/shares of the Company for the year by 6,416,730,792, representing the number of Share Stapled Units/shares issued as at December 31, 2011.)

7. TRADE RECEIVABLES, NET

The aging of trade receivables is set out below:

In HK\$ million	2010	2011
0 – 30 days	1,219	1,426
31 – 60 days	226	356
61 – 90 days	152	145
91 – 120 days	69	102
Over 120 days	574	622
	2,240	2,651
Less: Impairment loss for doubtful debts	(136)	(110)
	2,104	2,541

7. TRADE RECEIVABLES, NET (CONTINUED)

The trade receivables have a normal credit period ranging up to 30 days from the date of invoice or per contracted terms unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted.

8. TRADE PAYABLES

The aging of trade payables is set out below:

In HK\$ million	2010	2011
0 – 30 days	836	657
31 – 60 days	172	97
61 – 90 days	29	53
91 – 120 days	14	35
Over 120 days	517	690
	1,568	1,532

The directors of the Trustee-Manager and the Company as at the date of this announcement are as follows:

Executive Directors:

LI Tzar Kai, Richard (Executive Chairman); Alexander Anthony ARENA (Group Managing Director) and HUI Hon Hing, Susanna (Group Chief Financial Officer)

Non-Executive Directors:

Peter Anthony ALLEN; CHUNG Cho Yee, Mico; LU Yimin and LI Fushen

Independent Non-Executive Directors:

Professor CHANG Hsin Kang, FREng, GBS, JP; Sir Rogerio (Roger) Hyndman LOBO, CBE, LLD, JP; The Hon Raymond George Hardenbergh SEITZ and Sunil VARMA

Forward-Looking Statements

This announcement may contain certain forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT relating to the business, industry and markets in which HKT operates.