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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)**

# **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2012**

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 unaudited consolidated results of the HKT Trust and of the Company together with the Company’s subsidiaries (collectively the “Group”) for the six months ended June 30, 2012. This condensed consolidated interim financial information has not been audited, but has been reviewed by the Audit Committee of the Trustee-Manager and of the Company and, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, by the Group’s independent auditor, PricewaterhouseCoopers.

- Total revenue increased by 2% to HK\$9,715 million
- Total EBITDA increased by 3% to HK\$3,736 million
- Profit attributable to holders of Share Stapled Units increased by 45% to HK\$778 million; basic earnings per Share Stapled Unit was 12.13 HK cents
- Adjusted funds flow for the period was HK\$1,430 million; adjusted funds flow per Share Stapled Unit was 22.29 HK cents
- Interim distribution per Share Stapled Unit of 20.06 HK cents

## **MANAGEMENT REVIEW**

During the first half of 2012, HKT delivered a solid performance across all its business segments, highlighted by the fast-growing fiber broadband and mobile businesses, resulting in a strong set of financial results that showed growth in revenue, EBITDA, net profit and most importantly, adjusted funds flow.

Total revenue for the six months ended June 30, 2012 increased by 2% to HK\$9,715 million driven by the steady performance of the Telecommunications Services (“TSS”) business and continued growth from the Mobile business. Total EBITDA during the period was HK\$3,736 million, an increase of 3% over the same period in 2011.

Profit attributable to holders of Share Stapled Units was HK\$778 million, a substantial increase of 45% over the same period in 2011. This impressive growth was attributable to the higher EBITDA achieved from the TSS and Mobile businesses and substantial savings in net finance costs during the period.

Adjusted funds flow for the six months ended June 30, 2012 was HK\$1,430 million which represented 56% of the forecast of HK\$2,574 million for the 12 months ending December 31, 2012 as provided in HKT’s Global Offering prospectus. Adjusted funds flow per Share Stapled Unit was 22.29 HK cents.

The board of directors of the Trustee-Manager has resolved to declare an interim distribution of 20.06 HK cents per Share Stapled Unit for the six months ended June 30, 2012.

## **OUTLOOK**

Each of HKT’s business segments displayed a solid performance in the first six months of 2012 as demand continued for our high quality telecom services. However, the global economic condition has been weakening amid the persistent Eurozone debt crisis which could lead to reduced consumer and business spending in Hong Kong. Against this backdrop, we are monitoring each of HKT’s business segments closely and making investments cautiously.

Nevertheless, we will continue to invest to support the steady demand for our high speed fiber broadband and wireless services as well as continually improving our customer service and level of customer engagement. Barring any unforeseen circumstances, we remain confident that we will meet the forecasts for 2012 as disclosed in HKT’s Global Offering prospectus.

The price of the Share Stapled Units of HKT Limited and the HKT Trust has held up well relative to the overall volatility in the stock market and we will continue to work hard to enhance the value of the HKT Share Stapled Units.

## FINANCIAL REVIEW BY SEGMENT

For the six months ended HK\$ million	Jun 30, 2011	Dec 31, 2011	Jun 30, 2012	Better/ (Worse) y-o-y
<b>Revenue</b>				
TSS	8,259	9,036	8,425	2%
Mobile	919	1,048	1,133	23%
Other Businesses	479	331	368	(23)%
Eliminations	(120)	(127)	(211)	(76)%
<b>Total revenue</b>	<u>9,537</u>	<u>10,288</u>	<u><b>9,715</b></u>	2%
<b>Cost of sales</b>	(3,758)	(4,391)	(3,922)	(4)%
<b>Operating costs before depreciation, amortization, and gain on disposal of property, plant and equipment, net</b>	(2,156)	(2,109)	(2,057)	5%
<b>EBITDA<sup>1</sup></b>				
TSS	3,386	3,619	3,467	2%
Mobile	218	292	342	57%
Other Businesses	19	(123)	(73)	NA
<b>Total EBITDA<sup>1</sup></b>	<u>3,623</u>	<u>3,788</u>	<u><b>3,736</b></u>	3%
<b><i>TSS EBITDA margin<sup>1</sup></i></b>	<i>41%</i>	<i>40%</i>	<i>41%</i>	
<b><i>Mobile EBITDA margin<sup>1</sup></i></b>	<i>24%</i>	<i>28%</i>	<i>30%</i>	
<b><i>Total EBITDA margin<sup>1</sup></i></b>	<i>38%</i>	<i>37%</i>	<i>38%</i>	
Depreciation and amortization	(2,132)	(2,118)	(2,281)	(7)%
Gain on disposal of property, plant and equipment, net	1	4	2	100%
Other (losses)/gains, net	(28)	—	10	NA
Finance costs, net	(733)	(771)	(411)	44%
Share of results of associates and jointly controlled companies	<u>(5)</u>	<u>(14)</u>	<u>(62)</u>	NA
<b>Profit before income tax</b>	<u>726</u>	<u>889</u>	<u><b>994</b></u>	37%

## ADJUSTED FUNDS FLOW

For the six months ended HK\$ million	Jun 30, 2011	Dec 31, 2011	Jun 30, 2012	Better/ (Worse) y-o-y
<b>Total EBITDA<sup>1</sup></b>	3,623	3,788	<b>3,736</b>	3%
Less cash outflows in respect of:				
Customer acquisition costs and licence fees	(613)	(802)	(756)	(23)%
Capital expenditures <sup>5</sup>	(721)	(848)	(832)	(15)%
<b>Adjusted funds flow before tax paid, net finance costs paid and changes in working capital</b>	2,289	2,138	<b>2,148</b>	(6)%
Adjusted for:				
Tax payment	(24)	(106)	(23)	4%
Net finance costs paid	(660)	(662)	(355)	46%
Changes in working capital	(253)	(335)	(340)	(34)%
<b>Adjusted funds flow<sup>2</sup></b>	1,352	1,035	<b>1,430</b>	6%

## KEY OPERATING DRIVERS<sup>3</sup>

As of or for the 6 months ended	Jun 30, 2011	Dec 31, 2011	Jun 30, 2012	Better/ (Worse) y-o-y	h-o-h
Exchange lines in service ('000)	2,625	2,636	2,641	1%	0%
Business lines ('000)	1,217	1,228	1,233	1%	0%
Residential lines ('000)	1,408	1,408	1,408	0%	0%
Total broadband access lines ('000)	1,437	1,518	1,540	7%	1%
(Consumer, business and wholesale customers)					
Retail consumer broadband subscribers ('000)	1,285	1,363	1,385	8%	2%
Retail business broadband subscribers ('000)	116	119	122	5%	3%
Traditional data (Exit Gbps)	1,243	1,501	1,689	36%	13%
Retail IDD minutes (million minutes)	618	591	558	(10)%	(6)%
Mobile subscribers ('000)	1,506	1,535	1,605	7%	5%
Post-paid subscribers ('000)	923	945	1,005	9%	6%
Prepaid subscribers ('000)	583	590	600	3%	2%

- Note 1 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 2 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 unaudited condensed consolidated financial statements. The Adjusted Funds Flow may be used for debt repayment.*
- Note 3 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*
- Note 4 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 5 Group capital expenditures represent additions to property, plant and equipment, and interests in leasehold land.*

## Telecommunications Services (“TSS”)

For the six months ended HK\$ million	Jun 30, 2011	Dec 31, 2011	Jun 30, 2012	Better/ (Worse) y-o-y
Local Telephony Services	1,653	1,744	1,680	2%
Local Data Services	2,660	3,020	2,875	8%
International Telecommunications Services	2,188	2,011	2,188	0%
Other Services	1,758	2,261	1,682	(4)%
	— — —	— — —	— — —	
<b>TSS revenue</b>	<b>8,259</b>	<b>9,036</b>	<b>8,425</b>	<b>2%</b>
Cost of sales	(3,205)	(3,989)	(3,488)	(9)%
Operating costs before depreciation and amortization	(1,668)	(1,428)	(1,470)	12%
	— — —	— — —	— — —	
<b>TSS EBITDA<sup>1</sup></b>	<b>3,386</b>	<b>3,619</b>	<b>3,467</b>	<b>2%</b>
	=====	=====	=====	
<b>TSS EBITDA margin<sup>1</sup></b>	<b>41%</b>	<b>40%</b>	<b>41%</b>	
	=====	=====	=====	

HKT’s TSS business delivered steady revenue growth in the first half of 2012. Driven by the significant demand for high speed broadband fiber services and continued improvements in the traditional fixed-line business, revenue increased by 2% year-on-year to HK\$8,425 million for the six months ended June 30, 2012. As a result, TSS delivered meaningful EBITDA growth of 2% year-on-year to HK\$3,467 million with margins remaining steady at 41%.

*Local Telephony Services.* Local telephony services revenue for the six months ended June 30, 2012 increased by 2% year-on-year to HK\$1,680 million as a result of the healthy take-up of our innovative **eye** multimedia service. Total fixed lines in service at the end of June 2012 increased to 2.64 million, and the **eye** penetration of the residential customer base grew to 17% for the period.

*Local Data Services.* Local data services revenue for the six months ended June 30, 2012, comprising broadband network revenue and local data revenue, increased by 8% to HK\$2,875 million. Broadband network revenue grew impressively by 11% year-on-year driven by the continued roll-out of our fiber broadband network and upgrades to the service. At the end of June 2012, the total number of broadband access lines increased by 7% year-on-year to 1.54 million. Of these broadband access lines, 224,000 were fiber-to-the-home (FTTH) connections representing a penetration rate of 16% of the retail consumer broadband customer base. Meanwhile, local data revenue also recorded a steady growth due to increased business demand for local data services.

*International Telecommunications Services.* International telecommunications services sustained its strong performance from a year ago with revenue of HK\$2,188 million for the six months ended June 30, 2012. The wholesale voice and international connectivity services continued to perform well due to strong demand from wholesale and enterprise customers. However, IDD revenue from consumer and business customers continued to decline during the period.

*Other Services.* Other services revenue primarily comprise 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 six months ended June 30, 2012 decreased by 4% year-on-year to HK\$1,682 million, primarily due to the timing of project completions and lower CPE sales as a result of limited handset choices in the market in the first half of 2012.

## Mobile

For the six months ended HK\$ million	Jun 30, 2011	Dec 31, 2011	Jun 30, 2012	Better/ (Worse) y-o-y
<b>Mobile Revenue</b>	919	1,048	<b>1,133</b>	23%
<b>Mobile EBITDA<sup>1</sup></b>	218	292	<b>342</b>	57%
<b>Mobile EBITDA margin<sup>1</sup></b>	24%	28%	<b>30%</b>	

The Mobile business delivered another set of strong financial results in the first half of 2012 with mobile revenue increasing by 23% year-on-year to HK\$1,133 million. Mobile service revenue increased by 24% driven by a growing customer base and improved average revenue per user (“ARPU”).

PCCW mobile registered strong customer growth during the period. The total subscriber base reached 1.61 million at the end of June 2012 up 7% from a year ago and the number of post-paid subscribers increased by 9% to over 1 million. With the continued focus on acquiring quality, high-end smart device customers and increasing mobile data usage, the blended post-paid exit ARPU increased 16% to HK\$185 from HK\$160 a year ago.

The growing adoption of smart-phones and tablets resulted in significantly higher mobile data usage with mobile data revenue for the six months ended 30 June, 2012 increasing by 68% year-on-year and accounting for 73% of mobile service revenue for the period. PCCW mobile launched a 4G LTE network during the period complementing its already high speed 3G HSPA+ network. Despite a limited availability of 4G handsets, the customer reception to the launch has been encouraging.

HKT enjoys unparalleled competitive cost advantages because of its unique fixed-mobile integrated network which is supported by an extensive fiber backhaul network and more than 10,000 Wi-Fi hotspots as at the end of the period. Benefiting from this cost advantage and the continued improvement in ARPU the Mobile business recorded impressive growth of 57% year-on-year in EBITDA to HK\$342 million with the margin improving from 24% to 30%.

## **Other Businesses**

Other Businesses primarily comprise 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 was HK\$368 million for the six months ended June 30, 2012, as compared to HK\$479 million a year ago.

## **Eliminations**

Eliminations were HK\$211 million for the six months ended June 30, 2012, as compared to HK\$120 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed among HKT’s business units.

## **Cost of Sales**

Cost of sales for the six months ended June 30, 2012 increased by 4% year-on-year to HK\$3,922 million. The increase in cost of sales was in line with the growth in revenue.

## **General and Administrative Expenses**

To mitigate the impact of the overall inflationary environment, HKT focused on enhancing its operational efficiency and productivity during the period. As a result, we managed to reduce operating expenses before depreciation, amortization, and gain on disposal of property, plant and equipment, net, by 5% year-on-year to HK\$2,057 million. During the period, customer acquisition costs increased in line with business growth and as a result depreciation and amortization expenses increased by 7% year-on-year to HK\$2,281 million. General and administrative expenses increased modestly by 1% year-on-year to HK\$4,336 million for the six months ended June 30, 2012.

## **EBITDA<sup>1</sup>**

Solid performance in the TSS business and continued growth in the Mobile business led to an overall EBITDA improvement in the first half of 2012. EBITDA increased by 3% to HK\$3,736 million for the six months ended June 30, 2012.

## **Finance Costs, Net**

Net finance costs for the six months ended June 30, 2012 decreased by 44% year-on-year to HK\$411 million. The significant reduction in finance costs was primarily due to the interest savings after the repayment of the US\$1 billion 7.75% guaranteed notes due 2011 in November 2011.

## **Income Tax**

Income tax expense for the six months ended June 30, 2012 was HK\$189 million compared to HK\$168 million a year ago representing an effective tax rate of 19% (June 30, 2011: 23%). The increase in the tax expense was mainly due to higher profit before income tax during the period.



## **Non-controlling Interests**

Non-controlling interests of HK\$27 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 six months ended June 30, 2012 increased by 45% year-on-year to HK\$778 million (June 30, 2011: HK\$537 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 Group's gross debt<sup>4</sup> remained at HK\$23,539 million as at June 30, 2012 (December 31, 2011: HK\$23,583 million). Cash and cash equivalents totaled HK\$2,030 million as at June 30, 2012 (December 31, 2011: HK\$2,226 million). The Group's net debt<sup>4</sup> was HK\$21,509 million as at June 30, 2012 (December 31, 2011: HK\$21,357 million).

As at June 30, 2012, the Group had ample liquidity as evidenced by committed bank loan facilities totaling HK\$20,382 million, of which HK\$8,542 million remained undrawn.

The Group's gross debt<sup>4</sup> to total assets was 36% as at June 30, 2012 (December 31, 2011: 36%).

## **CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED**

As at June 30, 2012, 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 EXPENDITURE<sup>5</sup>**

Capital expenditure including capitalized interest for the six months ended June 30, 2012 was HK\$852 million (June 30, 2011: HK\$734 million). Major outlays for the period were mainly in network expansion and enhancement to meet demand for high-speed broadband fiber services, mobile 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 June 30, 2012, 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 June 30, 2012, no assets of the Group (December 31, 2011: certain assets of the Group with an aggregate carrying value of HK\$62 million) were pledged to secure loans and banking facilities of the Group.

## CONTINGENT LIABILITIES

<b>HK\$ million</b>	<b>As at Dec 31, 2011 (Audited)</b>	<b>As at Jun 30, 2012 (Unaudited)</b>
Performance guarantee	240	<b>249</b>
Tender guarantee	1	<b>1</b>
Others	2	<b>4</b>
	<b>243</b>	<b>254</b>

The Group is subject to certain corporate guarantee obligations to guarantee performance of the Company's subsidiaries and fellow subsidiaries 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 June 30, 2012, the Group had approximately 14,900 employees (June 30, 2011: 15,700). About 63% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States. 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.

## **INTERIM DIVIDEND/DISTRIBUTION**

The board of directors of the Trustee-Manager has resolved to declare an interim distribution by the HKT Trust in respect of the Share Stapled Units, of 20.06 HK cents per Share Stapled Unit, for the six months ended June 30, 2012 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has resolved to declare an interim dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 20.06 HK cents per ordinary share, in respect of the same period) to holders of the Share Stapled Units.

The board of directors of the Trustee-Manager has confirmed, in accordance with the trust deed constituting the HKT Trust (the “Trust Deed”), that (i) the auditors of the Group have performed procedures in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants on the Trustee-Manager’s calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unitholders of the HKT Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the HKT Trust as they fall due.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of registered holders of Share Stapled Units, the register of holders of units, the principal and Hong Kong branch registers of members of the Company and the register of beneficial interests as established and maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Thursday, September 13, 2012 to Friday, September 14, 2012 (both days inclusive), during which period no transfer of Share Stapled Units will be effected. The record date for the interim distribution will be Friday, September 14, 2012. In order to qualify for the interim distribution, all transfers of Share Stapled Units accompanied by the relevant certificates in respect of the Share Stapled Units transferred must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, September 12, 2012. The distribution warrants will be despatched to holders of the Share Stapled Units on or around Wednesday, September 26, 2012.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Under 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, and the HKT Trust and the Company are not allowed to repurchase their own Share Stapled Units.

During the six months ended June 30, 2012, 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, the unaudited condensed consolidated interim financial information of the HKT Trust and HKT Limited for the six months ended June 30, 2012 and the unaudited condensed interim financial information of the Trustee-Manager for the same period. Such financial information of the HKT Trust and HKT Limited and of the Trustee-Manager has not been audited but has been reviewed by the independent auditor of the Trustee-Manager and the Company.

## **CORPORATE GOVERNANCE PRACTICES**

The HKT Trust, the Trustee-Manager and the Company are committed to 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 “Former CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the period from January 1 to March 31, 2012. On April 1, 2012, the Former CG Code was amended and renamed as the Corporate Governance Code (the “New CG Code”). The HKT Trust and the Company have also complied with all relevant code provisions of the New CG Code during the period from April 1 to June 30, 2012, except that the chairman of the Remuneration Committee of the Company was unable to attend the combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company held on May 3, 2012 (which was required under Code Provision A.6.7) as he had another engagement overseas. The requirement to establish a separate Remuneration Committee for the Trustee-Manager under the Code Provision B.1.1 of the Former CG Code for the period from January 1 to March 31, 2012 and Rule 3.25 under the amended Listing Rules for the period from April 1 to June 30, 2012 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 Code Provision A.5.1 of the New CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This announcement is published on the websites of the Company ([www.hkt.com](http://www.hkt.com)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report 2012 will be despatched to holders of the Share Stapled Units and available on the above websites in due course.

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

Hong Kong, August 9, 2012

**CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED**

For the six months ended June 30, 2012

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

	Note(s)	2011 (Unaudited)	2012 (Unaudited)
Turnover	2	9,537	<b>9,715</b>
Cost of sales		(3,758)	<b>(3,922)</b>
General and administrative expenses		(4,287)	<b>(4,336)</b>
Other (losses)/gains, net	3	(28)	<b>10</b>
Interest income		20	<b>9</b>
Finance costs		(753)	<b>(420)</b>
Share of results of associates		—	<b>(13)</b>
Share of results of jointly controlled companies		(5)	<b>(49)</b>
Profit before income tax	2, 4	726	<b>994</b>
Income tax	5	(168)	<b>(189)</b>
Profit for the period		<b>558</b>	<b>805</b>
Attributable to:			
Holders of Share Stapled Units/shares of the Company		537	<b>778</b>
Non-controlling interests		21	<b>27</b>
		<b>558</b>	<b>805</b>
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted *	7	12.31 cents	<b>12.13 cents</b>

\* The earnings per Share Stapled Unit/share of the Company are based on the weighted average number of Share Stapled Units/shares of the Company deemed to be in issue during the period of 6,416,310,858 (six months ended June 30, 2011: 4,363,376,792, which was before the issuance of 2,053,354,000 Share Stapled Units/shares of the Company during the public offering in November 2011). Please refer to note 7 for details.

# **CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED**

As at June 30, 2012

(In HK\$ million)	Note	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		14,253	14,023
Interests in leasehold land		316	310
Goodwill		35,893	35,894
Intangible assets		4,872	4,742
Interests in associates		95	146
Interests in jointly controlled companies		577	563
Available-for-sale financial asset		72	80
Financial asset at fair value through profit or loss		—	3
Derivative financial instruments		275	285
Deferred income tax assets		3	3
Other non-current assets		498	503
		56,854	56,552
<b>Current assets</b>			
Prepayments, deposits and other current assets		2,273	2,557
Inventories		1,076	1,129
Trade receivables, net	8	2,541	2,518
Financial asset at fair value through profit or loss		—	3
Tax recoverable		68	—
Cash and cash equivalents		2,226	2,030
		8,184	8,237

# **CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED (CONTINUED)**

As at June 30, 2012

(In HK\$ million)	Note	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
<b>Current liabilities</b>			
Short-term borrowings		(31)	–
Trade payables	9	(1,532)	(1,642)
Accruals and other payables		(2,315)	(1,951)
Carrier licence fee liabilities		(190)	(244)
Amounts due to related companies		(29)	(7)
Amounts due to fellow subsidiaries and the ultimate holding company		(1,282)	(629)
Advances from customers		(1,483)	(1,432)
Current income tax liabilities		–	(207)
		(6,862)	(6,112)
<b>Net current assets</b>		1,322	2,125
<b>Total assets less current liabilities</b>		58,176	58,677
<b>Non-current liabilities</b>			
Long-term borrowings		(23,470)	(23,497)
Deferred income tax liabilities		(1,991)	(1,882)
Deferred income		(893)	(937)
Carrier licence fee liabilities		(838)	(818)
Other long-term liabilities		(51)	(50)
		(27,243)	(27,184)
<b>Net assets</b>		30,933	31,493
<b>CAPITAL AND RESERVES</b>			
Share capital		6	6
Retained profits		4,066	4,842
Other reserves		26,684	26,481
<b>Equity attributable to holders of Share Stapled Units/shares of the Company</b>		30,756	31,329
Non-controlling interests		177	164
<b>Total equity</b>		30,933	31,493

## NOTES

### 1. BASIS OF PREPARATION AND PRESENTATION

The HKT Trust (the “HKT Trust”) is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the “Trust Deed”), entered into between HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) and HKT Limited. In accordance with the Trust Deed, the HKT Trust and HKT Limited are each required to prepare their own interim financial information on a consolidated basis. The HKT Trust unaudited condensed consolidated interim financial information for the period ended June 30, 2012 comprises the unaudited condensed consolidated interim financial information of the HKT Trust, HKT Limited (or the “Company”) and its subsidiaries (together the “Group”), and the Group’s interests in associates and jointly controlled companies. The HKT Limited unaudited condensed consolidated interim financial information for the period ended June 30, 2012 comprises the unaudited condensed financial information of HKT Limited and its subsidiaries (together the “HKT Limited Group”) and the HKT Limited Group’s interests in associates and jointly controlled companies, and the Company’s balance sheet.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the period ended June 30, 2012 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the unaudited condensed consolidated interim financial information of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of the capital of HKT Limited. Directors of the Trustee-Manager and of the Company believe therefore that it is clearer to present the unaudited condensed consolidated financial information of the HKT Trust and of the Company together. The unaudited condensed consolidated interim financial information of the HKT Trust and the unaudited condensed consolidated interim financial information of HKT Limited are presented together to the extent they are identical and are hereinafter referred as the “HKT Trust and HKT Limited unaudited condensed consolidated interim financial information”.

The Group and the HKT Limited Group are referred as the “Groups”.

The share stapled units (the “Share Stapled Units”) structure comprises: (a) a unit in the HKT Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company, held by the Trustee-Manager as legal owner in its capacity as the trustee-manager of the HKT Trust, which is “linked” to the unit; and (c) a specifically identified preference share in the Company which is “stapled” to the unit. The Share Stapled Units, which are jointly issued by the HKT Trust and the Company, are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of the HKT Trust and HKT Limited for the year ended December 31, 2011.

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This unaudited condensed consolidated interim financial information was approved for issue on August 9, 2012.



## **1. BASIS OF PREPARATION AND PRESENTATION (CONTINUED)**

The HKT Trust and HKT Limited unaudited condensed consolidated interim financial information has been reviewed by the Audit Committee of the Trustee-Manager and of the Company and, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, by the Groups’ independent auditor.

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The accounting policies, basis of preparation and methods of computation used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Groups’ annual consolidated financial statements for the year ended December 31, 2011, except for the adoption of the following new, revised or amended Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (“Ints”) (collectively “new HKFRSs”) which are effective for accounting periods beginning on or after January 1, 2012.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2012, but have no material effect on the Groups’ results and financial position for the current and prior periods.

- HKFRS 7 (Amendment) Disclosures - Transfers of financial assets
- HKFRS 1 (Amendment) Severe hyperinflation and removal of fixed dates for first-time adopters
- HKAS 12 (Amendment) Deferred tax: Recovery of underlying assets

The Groups have not adopted any new HKFRSs that are not yet effective for the current accounting period.

## 2. SEGMENT INFORMATION

The chief operating decision-maker (the “CODM”) is the Groups’ senior executive management. The CODM reviews the Groups’ internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these internal 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 Groups’ mobile telecommunications businesses in Hong Kong.
- Other businesses of the Groups primarily comprise Unihub China Information Technology Company Limited, 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, gains/losses 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 interests in associates and jointly controlled companies and the Groups’ share of results of associates 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 statement.

## 2. SEGMENT INFORMATION (CONTINUED)

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

For the six months ended June 30, 2011  
(In HK\$ million)

	TSS (Unaudited)	Mobile (Unaudited)	Other Businesses (Unaudited)	Eliminations (Unaudited)	Total (Unaudited)
<b>REVENUE</b>					
Total Revenue	8,259	919	479	(120)	9,537
<b>RESULTS</b>					
EBITDA	3,386	218	19	—	3,623

For the six months ended June 30, 2012  
(In HK\$ million)

	TSS (Unaudited)	Mobile (Unaudited)	Other Businesses (Unaudited)	Eliminations (Unaudited)	Total (Unaudited)
<b>REVENUE</b>					
Total Revenue	8,425	1,133	368	(211)	9,715
<b>RESULTS</b>					
EBITDA	3,467	342	(73)	—	3,736

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

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Total segment EBITDA	3,623	3,736
Gain on disposal of property, plant and equipment, net	1	2
Depreciation and amortization	(2,132)	(2,281)
Other (losses)/gains, net	(28)	10
Interest income	20	9
Finance costs	(753)	(420)
Share of results of associates	—	(13)
Share of results of jointly controlled companies	(5)	(49)
Profit before income tax	726	994

### 3. OTHER (LOSSES)/GAINS, NET

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Net gain on cash flow hedging instruments transferred from equity	–	10
Impairment loss on an interest in a jointly controlled company	(16)	–
Others	(12)	–
	<b>(28)</b>	<b>10</b>

### 4. PROFIT BEFORE INCOME TAX

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

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Crediting:		
Gross rental income	11	15
Gain on disposal of property, plant and equipment, net	1	2
Charging:		
Cost of inventories sold	1,283	1,182
Cost of sales, excluding inventories sold	2,475	2,740
Depreciation of property, plant and equipment	1,163	1,103
Amortization of intangible assets	963	1,172
Amortization of land lease premium - interests in leasehold land	6	6
Finance costs on borrowings	716	386
Staff costs	886	836

## 5. INCOME TAX

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Current income tax:		
Hong Kong profits tax	181	275
Overseas tax	23	23
Movement of deferred income tax	(36)	(109)
	<u>168</u>	<u>189</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

## 6. DISTRIBUTIONS/DIVIDENDS

### a. Distribution/Dividend attributable to the interim period

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Interim distribution/dividend declared after the interim period of 20.06 HK cents (2011: nil) per Share Stapled Unit/ordinary share of the Company	—	<u>1,287</u>

At meetings held on August 9, 2012, the directors of the Trustee-Manager and the Company declared an interim distribution/dividend of 20.06 HK cents per Share Stapled Unit/ordinary share of the Company for the year ending December 31, 2012. This interim distribution/dividend is not reflected as a distribution/dividend payable in this unaudited condensed consolidated interim financial information.

### b. Distribution/Dividend approved and paid during the interim period

In HK\$ million	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Final distribution/dividend in respect of the previous financial year, approved and paid during the interim period of 3.36 HK cents (2011: nil) per Share Stapled Unit/ordinary share of the Company	—	<u>216</u>

## 7. 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:

	Six months ended	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)

### Earnings (in HK\$ million)

Earnings for the purposes of basic and diluted earnings per Share Stapled Unit/share of the Company	537	778
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### Number of Share Stapled Units/shares of the Company

Weighted average number of Share Stapled Units/ordinary shares of the Company outstanding at the beginning of year	4,363,376,792	6,416,730,792
Effect of Share Stapled Units/shares of the Company purchased from the market under the Company's Share Staple Units Award Schemes	—	(419,934)

Weighted average number of Share Stapled Units/ordinary shares for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	4,363,376,792	6,416,310,858
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(Note: The Unaudited Pro Forma basic/diluted earnings per Share Stapled Unit/share were 8.37 HK cents and 12.12 HK cents, respectively, for June 30, 2011 and June 30, 2012 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 June 30, 2012.)

## 8. TRADE RECEIVABLES, NET

An aging analysis of trade receivables is set out below:

In HK\$ million	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
0 – 30 days	1,426	<b>1,443</b>
31 – 60 days	356	<b>462</b>
61 – 90 days	145	<b>205</b>
91 – 120 days	102	<b>211</b>
Over 120 days	622	<b>356</b>
Less: Impairment loss for doubtful debts	(110)	<b>(159)</b>
	<b>2,541</b>	<b>2,518</b>

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain 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.

## 9. TRADE PAYABLES

An aging analysis of trade payables is set out below:

In HK\$ million	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
0 – 30 days	657	<b>630</b>
31 – 60 days	97	<b>112</b>
61 – 90 days	53	<b>71</b>
91 – 120 days	35	<b>70</b>
Over 120 days	690	<b>759</b>
	<b>1,532</b>	<b>1,642</b>

# INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the six months ended June 30, 2012

(In HK\$'000)	For the period from June 14, 2011 (date of incorporation) to June 30, 2011 (unaudited)		Six months ended June 30, 2012 (unaudited)
Management fee income	—		27
General and administrative expenses	—		(27)
Profit before income tax	—		—
Income tax	—		—
Profit for the period	—		—

# BALANCE SHEET OF HKT MANAGEMENT LIMITED

As at June 30, 2012

(In HK\$'000)	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
<b>ASSETS AND LIABILITIES</b>		
<b>Current assets</b>		
Amount due from a fellow subsidiary	—	27
	—	27
<b>Current liabilities</b>		
Accruals and other payables	—	(26)
Amounts due to a fellow subsidiary	—	(1)
	—	(27)
Net current assets	—	—
Net assets	—	—
<b>CAPITAL AND RESERVES</b>		
Share capital	—	—
Reserves	—	—
Total equity	—	—



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.