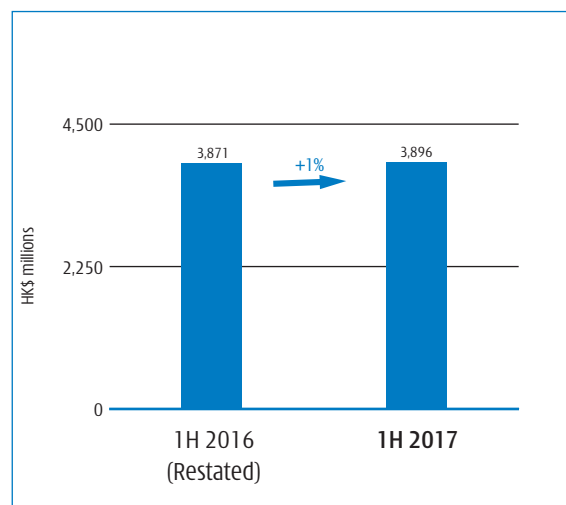


Management Discussion and Analysis

Financial Review

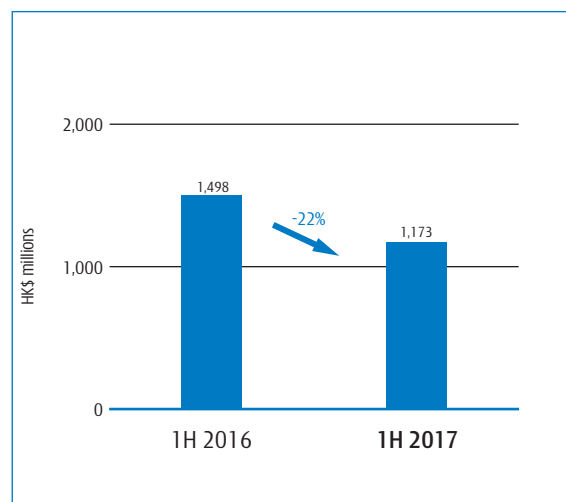
Consolidated service revenue in the first half of 2017 was HK\$3,896 million, increased by 1% compared to HK\$3,871 million in the first half of 2016. This was the result of a 3% increase in fixed-line revenue, partially offset by 1% decrease in mobile service revenue from 9% decrease in mobile roaming revenue.

Consolidated service revenue



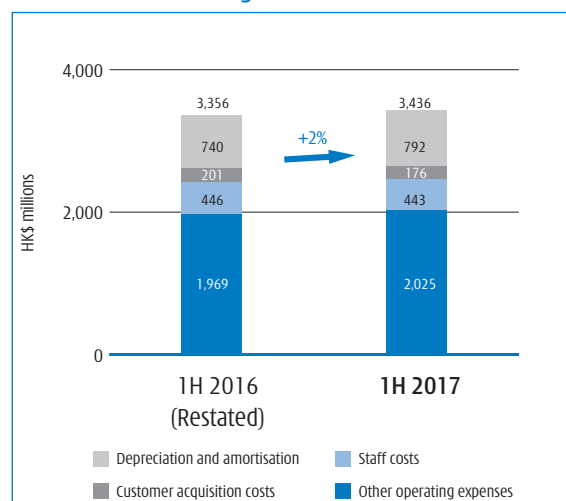
Consolidated hardware revenue was HK\$1,173 million in the first half of 2017, a decrease of 22% from HK\$1,498 million in the first half of 2016 resulting from weaker demand for new smartphones during the period.

Consolidated hardware revenue



Total operating expenses, excluding cost of inventories sold, amounted to HK\$3,436 million in the first half of 2017, an increase of 2% from HK\$3,356 million in the first half of 2016. This was mainly due to higher mobile spectrum amortisation charge after the renewal of mobile spectrum in October 2016, partially offset by savings in customer acquisition costs with the focus in retention of loyal customers and cautious control over growth in other operating expenses achieved from internal efficiency initiatives.

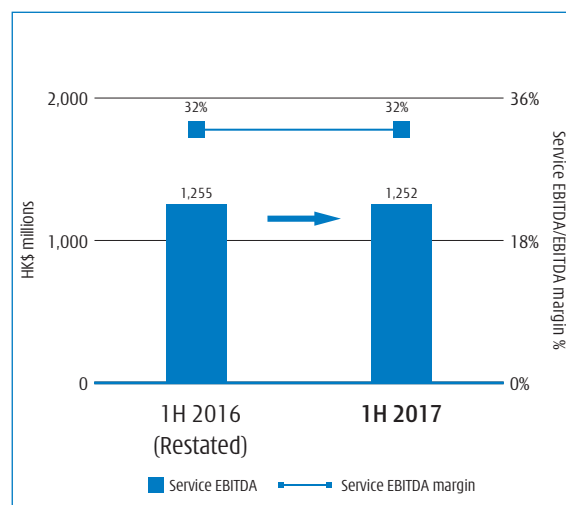
Key cost items



Consolidated service EBITDA in the first half of 2017 was HK\$1,252 million, comparable with HK\$1,255 million in the first half of 2016 as a result of the above. Consolidated service EBITDA margin was maintained at 32% in the first half of 2017.

Depreciation and amortisation amounted to HK\$792 million in the first half of 2017 compared to HK\$740 million in the first half of 2016. The increase was mainly a result of an increase in spectrum licence fee amortisation on 2100MHz band and 2300MHz band after its activation in October 2016 as mentioned above, as well as enhancement of the 4G LTE network infrastructure.

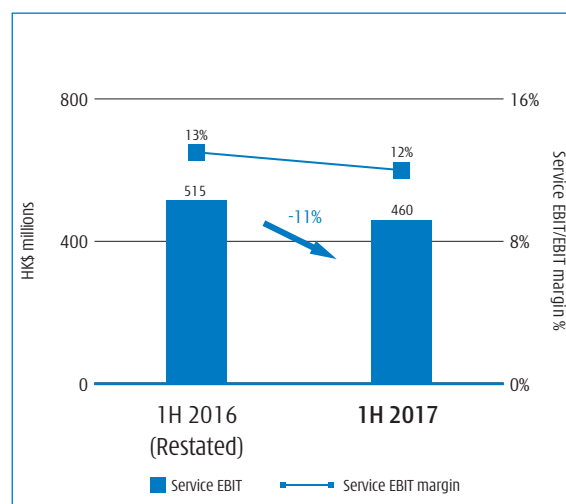
Consolidated service EBITDA



Consolidated service EBIT was HK\$460 million in the first half of 2017, a decrease of 11% compared to HK\$515 million in the first half of 2016, mainly due to an increase in depreciation and amortisation mentioned above.

Net interest and other finance costs amounted to HK\$49 million in the first half of 2017, a decrease of 9% compared to HK\$54 million in the first half of 2016. The decrease was the result of lower notional finance charge on decreasing spectrum licence fee liabilities, partially offset by higher finance cost on higher level of borrowings to finance the mobile spectrum licence fee settled in August 2016. Gearing ratio as of 30 June 2017, calculated by dividing net debt by net total capital, was 27% (31 December 2016: 25%) as a result of higher net debt position.

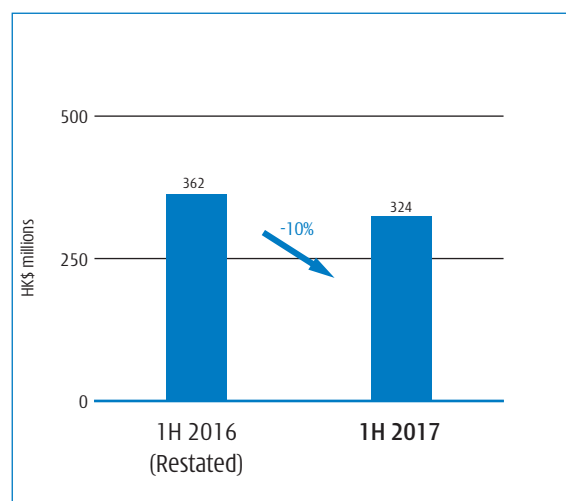
Consolidated service EBIT



Share of joint venture losses in the first half of 2017 was HK\$3 million, comparable to HK\$2 million in the first half of 2016.

Overall, profit attributable to shareholders of the Company in the first half of 2017 was HK\$324 million, a decrease of 10% compared to HK\$362 million in the first half of 2016.

Profit attributable to shareholders



Business Review

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

Hong Kong and Macau mobile business highlights

	For the six months ended 30 June 2017 HK\$ millions	For the six months ended 30 June 2016 HK\$ millions	Favourable/ (unfavourable) change 1H 2017 vs 1H 2016
Total revenue	3,117	3,472	-10%
- <i>Net customer service revenue</i>	1,944	1,973	-1%
- <i>Local service revenue</i>	1,615	1,612	-
- <i>Roaming service revenue</i>	329	361	-9%
- <i>Hardware revenue</i>	1,173	1,499	-22%
- <i>Bundled sales revenue</i>	339	294	+15%
- <i>Standalone handset sales revenue</i>	834	1,205	-31%
Net customer service margin	1,815	1,829	-1%
<i>Net customer service margin %</i>	93%	93%	-
Standalone handset sales margin	17	20	-15%
Total CACs	(468)	(443)	-6%
Less: Bundled sales revenue	339	294	+15%
Total CACs (net of handset revenue)	(129)	(149)	+13%
Operating expenses	(1,056)	(1,035)	-2%
<i>Opex as a % of net customer service margin</i>	58%	57%	-1% point
EBITDA	647	665	-3%
Service EBITDA	630	645	-2%
<i>Service EBITDA margin %</i>	32%	33%	-1% point
Depreciation and amortisation	(407)	(351)	-16%
EBIT	240	314	-24%
Service EBIT	223	294	-24%
CAPEX (excluding licence)	(197)	(198)	+1%
EBITDA less CAPEX	450	467	-4%

Mobile business revenue for the first half of 2017 amounted to HK\$3,117 million, a decrease of 10% compared with HK\$3,472 million for the first half of 2016. More than 90% of the decline in mobile revenue was the result of lower hardware revenue following weaker demand for new smartphones. Hardware revenue decreased by 22% from HK\$1,499 million for the first half of 2016 to HK\$1,173 million for the first half of 2017.

Mobile net customer service revenue for the first half of 2017 was HK\$1,944 million, a marginal decrease of 1% compared with HK\$1,973 million for the first half of 2016. The slight decrease in net customer service revenue was mainly the result of a 9% decline in roaming revenue compared with the same period in 2016. The reduction in roaming revenue slowed down in the first half of 2017 from a drop of 19% for the same period in 2016 against 2015, with the signs of recovery after introduction of various new roaming products and promotions. Net customer service margin percentage for the first half of 2017 was maintained at 93%.

EBITDA in the first half of 2017 decreased by 3% to HK\$647 million, mainly reflecting a decrease in roaming service margin and lower standalone handset sales margin, partially offset by improved local net customer service margin. On the other hand, service EBITDA in the first half of 2017 was HK\$630 million. Corresponding service EBITDA margin percentage was 32%, which was comparable with that in the same period of 2016. EBIT decreased by 24% to HK\$240 million compared to the same period in 2016, mainly due to the increased mobile spectrum amortisation charge after the renewal of mobile spectrum licence in October 2016.

As of 30 June 2017, the Group was serving approximately 3.3 million customers in Hong Kong and Macau (31 December 2016: approximately 3.2 million), of which the number of postpaid customers was approximately 1.5 million (31 December 2016: approximately 1.5 million). Overall churn rate among postpaid customers improved to 1.2% in the first half of 2017 from 1.3% in the first half of 2016. This reflected greater user satisfaction in respect of 4G LTE network quality and enhanced customer service. The Group is committed to enhancing further in churn management following the recent launch of a loyalty programme among our customers.

Blended local postpaid net ARPU decreased by 3% from HK\$166 in the first half of 2016 to HK\$161 in the first half of 2017, as a result of keen competition in the mobile market. Accordingly, blended local postpaid net AMPU decreased by 2% to HK\$155 in the first half of 2017 from HK\$158 in the first half of 2016. The Group will continue to launch more OTT services, innovative products, IoT and big data applications to meet customer demands and improve revenue.

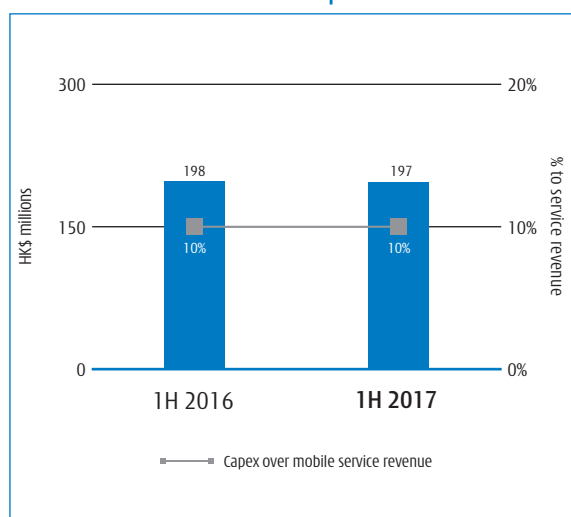
The Group is deploying the latest technologies and enhancing existing network architecture as the industry moves towards 5G and the IoT. Together with deployment of carrier aggregation technology, the Group is working on initiatives such as small-cell and smart antenna deployment to enable timely launch of services to meet market demand after the 5G standard and Hong Kong's spectrum plans are confirmed.

Key performance indicators for mobile business

	For the six months ended 30 June 2017	For the six months ended 30 June 2016 (Restated)	Favourable/ (unfavourable) change 1H 2017 vs 1H 2016
Number of postpaid customers ('000)	1,486	1,481	-
Number of prepaid customers ('000)	1,782	1,597	+12%
Total customers ('000)	3,268	3,078	+6%
Postpaid customers to the total customer base (%)	45%	48%	-3% points
Postpaid customers' contribution ⁽²⁾ to the net customer service revenue (%)	91%	92%	-1% point
Monthly postpaid churn rate (%)	1.2%	1.3%	+0.1% point
Local postpaid gross ARPU ⁽²⁾ (HK\$)	195	209	-7%
Local postpaid net ARPU ⁽²⁾ (HK\$)	161	166	-3%
Local postpaid net AMPU ⁽²⁾ (HK\$)	155	158	-2%

Capital expenditure on property, plant and equipment in the first half of 2017 amounted to HK\$197 million (1H 2016: HK\$198 million), accounting for 10% (1H 2016: 10%) of mobile service revenue. The level of capital expenditure in the first half of 2017 was consistent with the same period in 2016, mainly for long-term investment in network enhancement and capacity expansion for 4.5G technology and launch of automation projects during the first half of 2017 to prepare for coming 5G technology for better service and long-term cost savings in future.

Mobile capex



Summary of spectrum investment as of 30 June 2017

Spectrum band	Bandwidth	Year of expiry
Hong Kong		
900 MHz	10 MHz	2026
900 MHz	16.6 MHz	2020
1800 MHz	23.2 MHz	2021
2100 MHz	29.6 MHz	2031
2300 MHz	30 MHz	2027
2600 MHz	30 MHz*	2024
2600 MHz	10 MHz*	2028
Macau		
900 MHz	15.6 MHz	2023
1800 MHz	38.8 MHz	2023
2100 MHz	20 MHz	2023

* Shared under 50/50 joint venture - Genius Brand Limited

Note 2: The postpaid customers' contribution, ARPU and AMPU information for the six months ended 30 June 2016 has been restated to exclude the mobile MVNO revenue.

Fixed-line business highlights

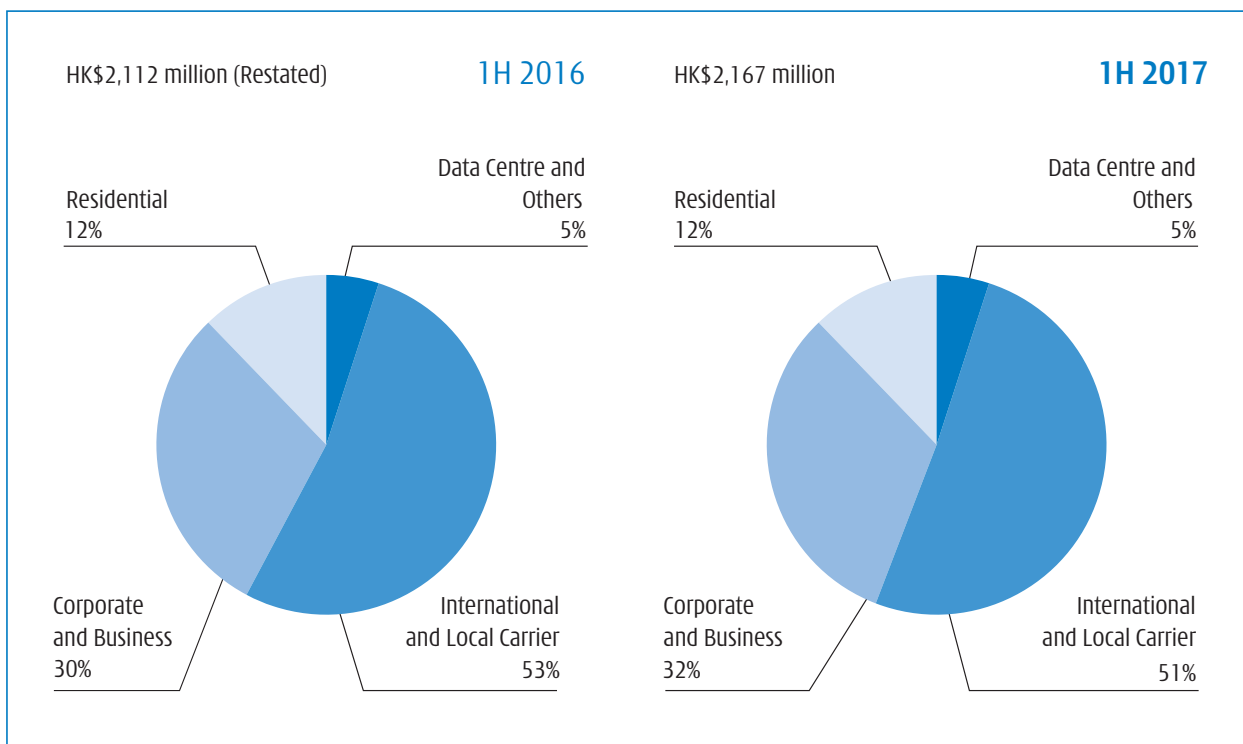
	For the six months ended 30 June 2017 HK\$ millions	For the six months ended 30 June 2016 HK\$ millions (Restated)	Favourable/ (unfavourable) change 1H 2017 vs 1H 2016
Revenue	2,167	2,112	+3%
Operating expenses	(1,485)	(1,443)	-3%
<i>Opex as % of revenue</i>	69%	68%	-1% point
EBITDA	682	669	+2%
<i>EBITDA margin %</i>	31%	32%	-1% point
Depreciation and amortisation	(385)	(389)	+1%
EBIT	297	280	+6%
CAPEX (excluding licence)	(230)	(236)	+3%
EBITDA less CAPEX	452	433	+4%

Fixed-line service revenue for the first half of 2017 was HK\$2,167 million, an increase of 3% compared with HK\$2,112 million for the first half of 2016. This improvement was mainly the result of higher revenue from corporate and business market segments driven by growing data and ICT needs, partially offset by lower revenue from the residential market as a result of keen market competition.

During the period, the Group acquired the remaining 50% interest in HGCGC, the then joint venture between the Group and the CKHH Group, to cater for the increasing demand of data centre facilities in harmony with existing advanced network infrastructure to develop new products and services locally and internationally.

EBITDA in the first half of 2017 increased by 2% to HK\$682 million compared with HK\$669 million in the first half of 2016 as a result of improved revenue, while EBIT for the first half of 2017 improved by 6% to HK\$297 million compared with HK\$280 million in the first half of 2016.

Fixed-line service revenue



Capital expenditure on property, plant and equipment in the first half of 2017 amounted to HK\$230 million (1H 2016: HK\$236 million), representing 11% (1H 2016: 11%) of fixed-line service revenue. The level of capital expenditure in the first half of 2017 was consistent with the same period in 2016, mainly as a result of continued focus on network equipment expenditure to meet customer requirements.

Fixed-line capex

