

Management Discussion and Analysis

Business Highlights

	For the six months ended 30 June 2018 HK\$ million	For the six months ended 30 June 2017 HK\$ million	Favourable/ (unfavourable) Change
Revenue	4,021	3,117	+29%
- Net customer service revenue	1,843	1,944	-5%
- Local service revenue	1,494	1,615	-7%
- Roaming service revenue	349	329	+6%
- Hardware revenue	2,178	1,173	+86%
- Bundled sales revenue	339	339	-
- Standalone handset sales revenue	1,839	834	+121%
Net customer service margin	1,681	1,815	-7%
<i>Net customer service margin %</i>	91%	93%	-2% points
Standalone handset sales margin	22	17	+29%
Total CACs	(412)	(468)	+12%
Less: Bundled sales revenue	339	339	-
Total CACs (net of handset revenue)	(73)	(129)	+43%
Operating expenses and staff costs	(1,065)	(1,090)	+2%
<i>Operating expenses and staff costs as a % of net customer service margin</i>	63%	60%	-3% points
EBITDA	601	644	-7%
Service EBITDA	579	627	-8%
<i>Service EBITDA margin %</i>	31%	32%	-1% point
Depreciation and amortisation	(381)	(407)	+6%
EBIT	195	215	-9%
Service EBIT	173	198	-13%
CAPEX	(282)	(197)	-43%
EBITDA less CAPEX	319	447	-29%

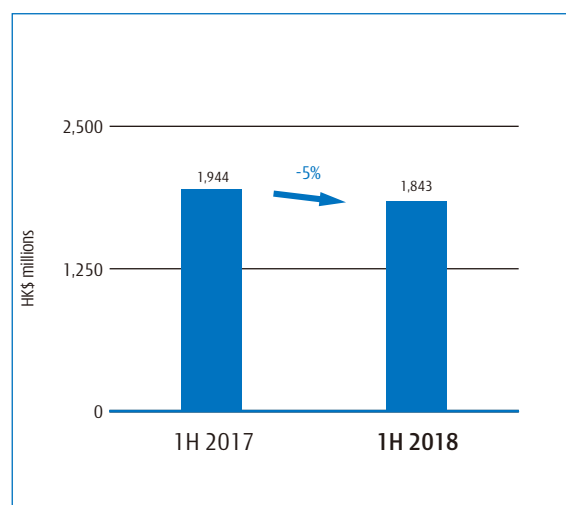
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Revenue for the first half of 2018 was HK\$4,021 million, a 29% increase compared with HK\$3,117 million for the same period in 2017. This was attributable to higher hardware revenue generated by greater demand for new smartphones rolling over from the last quarter of 2017. Service revenue for the first half of 2018 was HK\$1,843 million, a 5% decrease compared with HK\$1,944 million in the first half of the previous year. Local service revenue for the first half of 2018 recorded a decrease of 7% at a time of intense market competition. Roaming revenue rallied in the first half of 2018 and improved 6% compared with that of the first half of 2017, following launch of innovative roaming packages during the period.

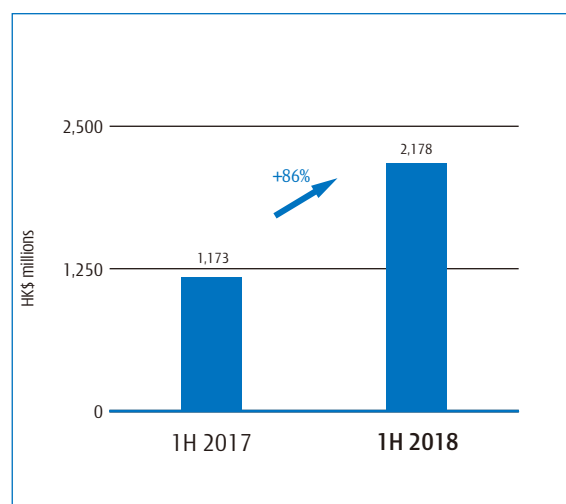
Hardware revenue for the first half of 2018 was HK\$2,178 million, an increase of 86% from HK\$1,173 million in the first half of 2017, resulting from greater demand for the latest smartphones rolling over from the last quarter of 2017.

Total CACs, staff costs and other operating expenses for the first half of 2018 amounted to HK\$1,300 million, a decrease of 4% from HK\$1,348 million in the first half of 2017. The decrease was mainly a result of capitalisation of certain variable costs after adoption of IFRS 15 as well as continued efficiency enhancement and stringent expenditure control.

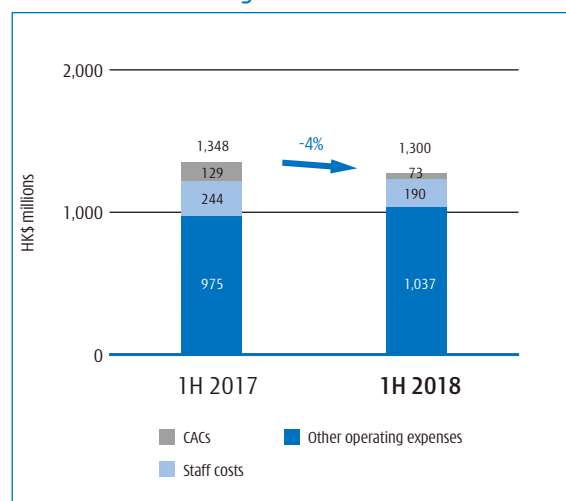
Service revenue



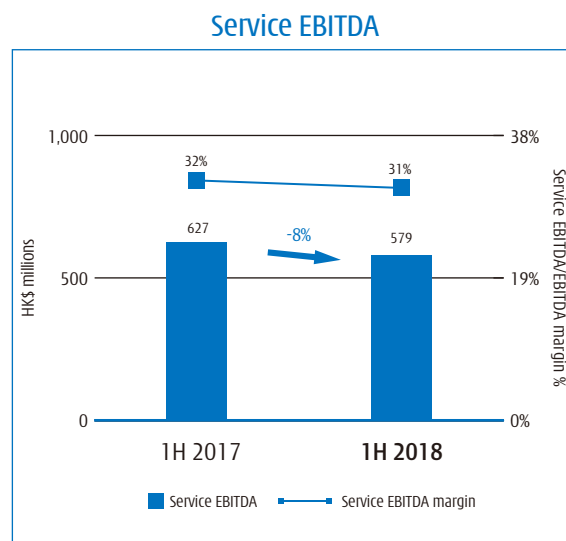
Hardware revenue



Key cost items



Service EBITDA for the first half of 2018 was HK\$579 million, an 8% decrease compared with HK\$627 million for the same period in 2017. This reflected keen market competition in local data tariff packages. Service EBITDA margin was 31%.



Depreciation and amortisation for the first half of 2018 amounted to HK\$381 million compared with HK\$407 million in the first half of 2017. This decrease was mainly the result of savings of HK\$137 million from depreciation of mobile fixed assets after an accelerated depreciation exercise involving certain 2G and 3G fixed assets in 2017, partially offset by additional amortisation charges of capitalised variable costs after adoption of the IFRS 15 accounting standard.

EBIT for the first half of 2018 was HK\$195 million, 9% lower than the HK\$215 million reported for the first half of 2017.

Key Performance Indicators

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Favourable/ (unfavourable) Change
Number of postpaid customers ('000)	1,499	1,486	+1%
Number of prepaid customers ('000)	1,915	1,782	+7%
Total customers ('000)	3,414	3,268	+4%
Postpaid customers to the total customer base (%)	44%	45%	-1% point
Postpaid customers' contribution to the net customer service revenue (%)	91%	91%	-
Monthly churn rate of postpaid customers (%)	1.2%	1.2%	-
Postpaid gross ARPU (HK\$)	222	232	-4%
Postpaid net ARPU (HK\$)	188	198	-5%
Postpaid net AMPU (HK\$)	172	184	-7%

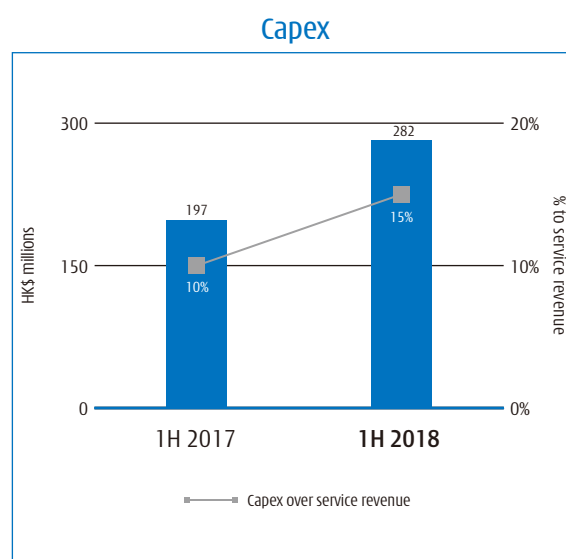
As of 30 June 2018, the total number of customers being served in Hong Kong and Macau was approximately 3.4 million (31 December 2017: approximately 3.3 million), with growth mainly came from the Hong Kong market. Postpaid customers accounted for 44% (31 December 2017: 45%) of the total customers. Monthly churn rate of postpaid customers was kept at 1.2% during the first half of 2018 (1H 2017: 1.2%), while blended postpaid gross ARPU decreased 4% to HK\$222 for the first half of 2018 from HK\$232 in the first half of 2017. This was a result of fierce market competition in local data tariff packages.

Net Interest and Other Finance Income

Net interest and other finance income amounted to HK\$79 million for the first half of 2018 compared with expenses of HK\$37 million for the same period in 2017. The increase in net interest and other finance income was the result of interest income generated from the cash proceeds subsequent to disposal of the fixed-line business together with savings from interest and other finance costs after repayment of bank borrowings in early 2018. As of 30 June 2018, the Group recorded a net cash position of HK\$9,491 million.

Capital Expenditure

Capital expenditure on property, plant and equipment for the first half of 2018 amounted to HK\$282 million (1H 2017: HK\$197 million), focusing on long-term investment in quality enhancement and capacity expansion on our advanced 4.5G mobile network. Expenditure during the first half of 2018 accounted for 15% (1H 2017: 10%) of service revenue. The Group scrutinises capital expenditure carefully to ensure all spending is revenue driven.



Summary of spectrum investment as of 30 June 2018

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	28.8 MHz	2023
2100 MHz	10 MHz	2023

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