

Management Discussion and Analysis ►►

Financial Review

Consolidated turnover for the year ended 31 December 2013 was HK\$12,777 million compared with HK\$15,536 million in 2012. The 18% drop in consolidated turnover was mainly due to the substantial drop of mobile hardware revenue by 39%, as a result of reduced demand for new handsets during the year, while service revenue was comparable with 2012. Mobile service revenue decreased by 6% to HK\$5,138 million as more customers subscribed to mid and lower-tier service plans following the lower demand for new handset models which resulted in less migration to higher-tier service plans, thus offsetting the 7% growth in fixed-line service revenue. Overall consolidated service revenue was HK\$8,556 million, comparable with that in 2012. Cost of inventories sold declined by 39% to HK\$3,943 million in 2013, in line with the decline in mobile hardware sales.

Total operating expenses, excluding cost of inventories sold, increased by 3% from HK\$7,302 million in 2012 to HK\$7,495 million in 2013, mainly as a result of inflationary pressure on various costs.

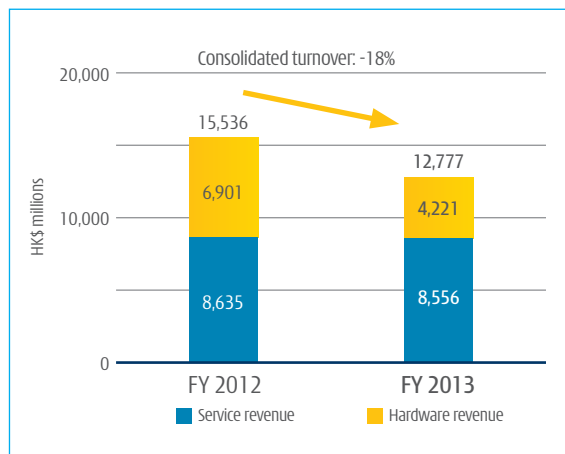
Consolidated EBITDA dropped by 11% from HK\$3,008 million in 2012 to HK\$2,674 million in 2013 while EBITDA margin on service revenue reduced from 35% in 2012 to 31% in 2013. Consolidated EBIT decreased by 22% from HK\$1,726 million in 2012 to HK\$1,339 million in 2013.

Interest and other finance costs rose from HK\$166 million in 2012 to HK\$181 million in 2013, as a result of a net increase in borrowings of HK\$800 million. Gearing ratio, calculated by dividing net debt by net total capital, increased to 28% (2012: 24%).

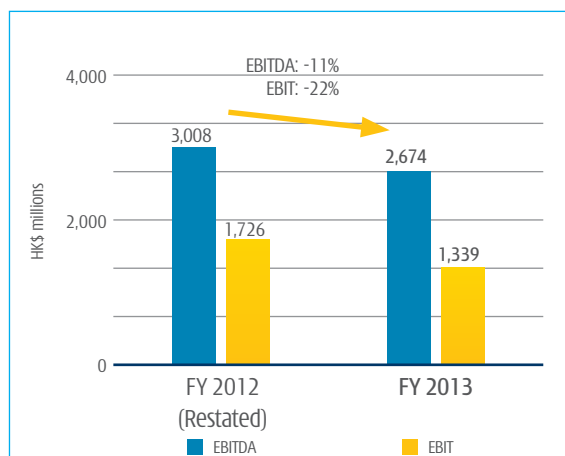
Share of losses of joint ventures in 2013 amounted to HK\$12 million compared with HK\$3 million in 2012, as we continued to develop our data centre facilities. Taxation was HK\$77 million in 2013 compared with HK\$54 million in 2012, as a result of increased fixed-line business profitability. Following years of profitability of the mobile business, brought forward tax losses are gradually being utilised. As such, we expect an increase of deferred tax expenses in 2014.

Overall, profit attributable to shareholders of the Company decreased from HK\$1,215 million in 2012 to HK\$916 million in 2013.

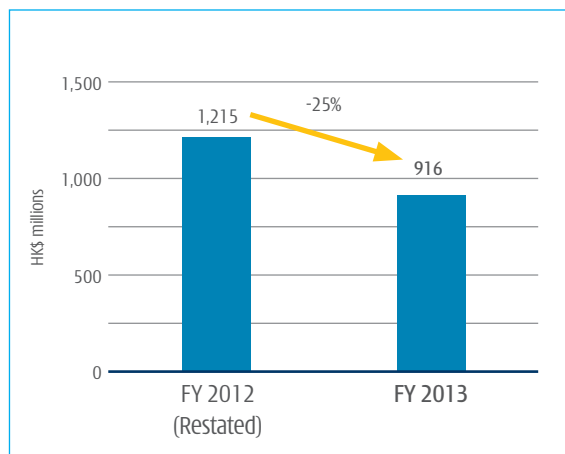
Consolidated turnover



Consolidated EBITDA and EBIT



Profit attributable to shareholders



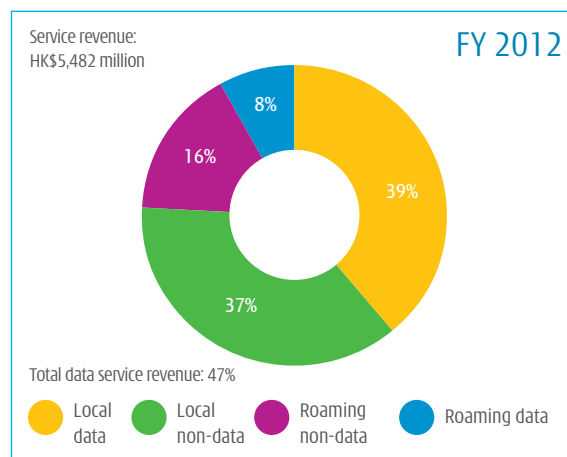
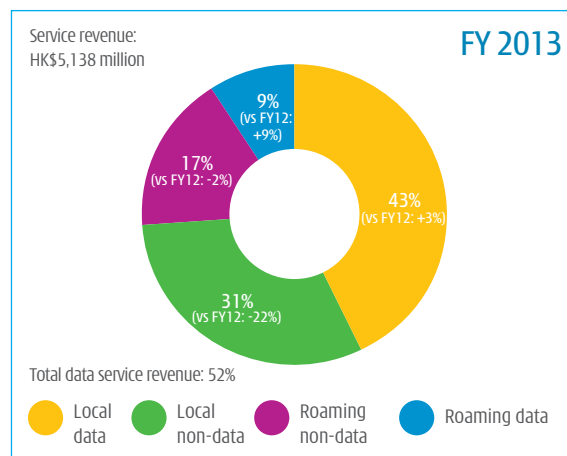
Business Review

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

Mobile business in Hong Kong and Macau

Turnover for the year ended 31 December 2013 was HK\$9,359 million, decreased by 24% compared with HK\$12,383 million in 2012. This was mainly as a result of a 39% reduction in hardware revenue due to lower demand for new handsets, which also contributed towards a 6% drop in mobile service revenue as compared to 2012. The decrease in service revenue was mainly due to the transition to a non-subsidised handset business model, less migration to higher-tier service plans, as well as a significant drop in demand for non-data services, which was partially offset by increased demand for data services. Total data service revenue⁽¹⁾ from local and roaming is now the largest source of mobile service income, accounting for 52% (2012: 47%) of mobile service revenue, which reflects the growing importance of data services in the data-centric era. Net customer service margin⁽²⁾ improved from 85% in 2012 to 87% in 2013 as a result of strict control of variable costs.

Mobile service revenue



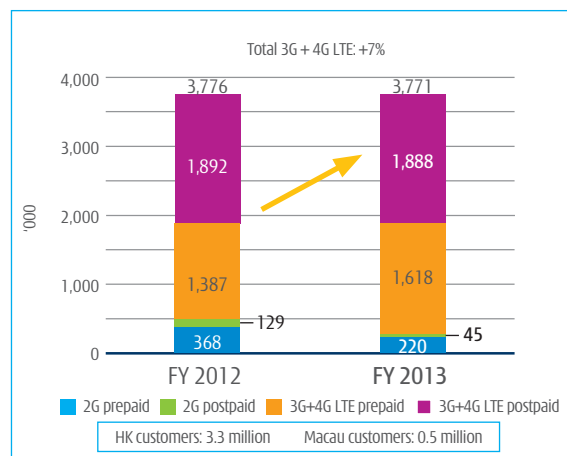
Notes:

(1) Data service revenue is defined as customer payment for internet and data access services, excluding messaging, content and related services. Non-data service revenue is defined as customer payment for items including voice, messaging, content and related services.

(2) Net customer service margin is defined as service revenue less direct variable costs (including interconnection charges and roaming costs).

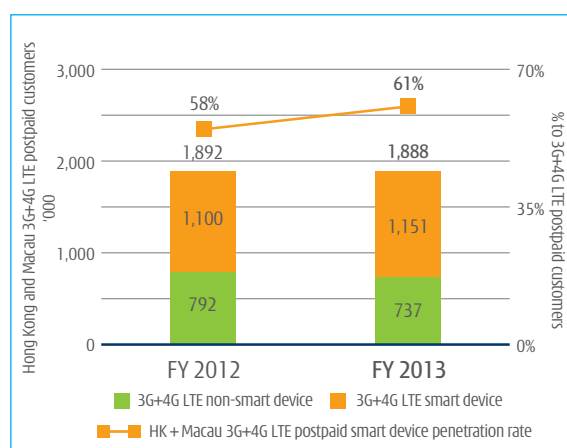
As of 31 December 2013, our Hong Kong and Macau base was maintained at approximately 3.8 million customers, of which postpaid customers totalled approximately 1.9 million (51% of total customer base). 3G and 4G LTE customers accounted for 98% amongst our total postpaid customer base. Churn rate of postpaid customers was maintained at 1.9% in 2013.

Total customers



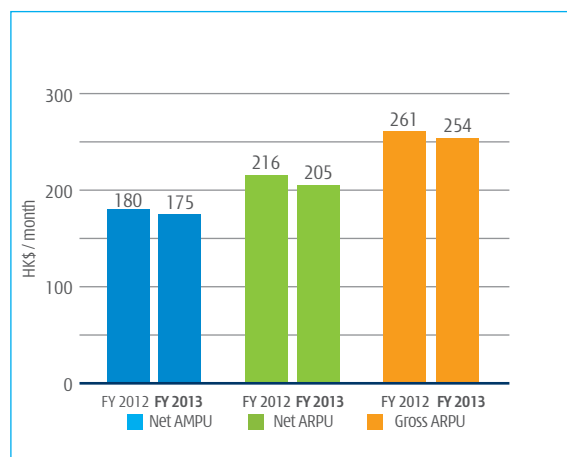
Smart device penetration

As of 31 December 2013, over 60% of our 3G and 4G LTE postpaid customers in Hong Kong and Macau were smart device users (2012: 58%). Blended postpaid gross ARPU⁽³⁾ in 2013 was HK\$254, compared with HK\$261 in 2012 while the blended postpaid net ARPU⁽³⁾ in 2013 was HK\$205 compared with HK\$216 in 2012. Blended postpaid net AMPU⁽⁴⁾ in 2013 was HK\$175 compared with HK\$180 in 2012. Lower average net ARPU and net AMPU in 2013 were due to customers opting for lower-tier service plans and the completion of the transition from a subsidised handset business model to a non-subsidised handset business model.



Blended postpaid ARPU and AMPU

Mobile business EBITDA was HK\$1,570 million in 2013, representing a 25% decrease compared with that of 2012, while corresponding EBIT was HK\$961 million in 2013, representing a 35% decrease compared with 2012. The decreases were the result of a 24% shortfall in turnover, partly offset by lower operating costs including cost of inventories sold as a result of substantial effort spent on cost management. Overall EBITDA margin on service revenue was maintained at a healthy level of approximately 30% despite a substantial reduction in sales performance.



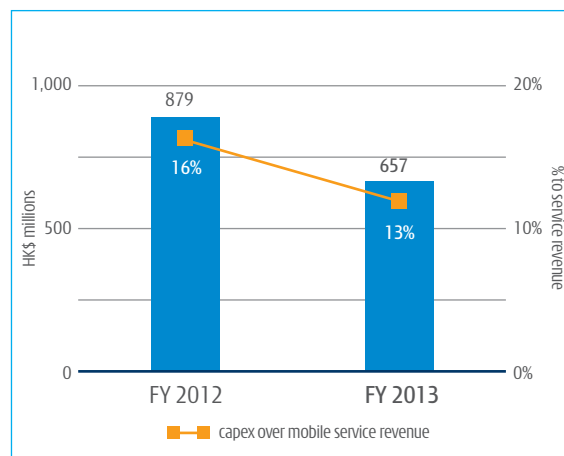
Notes:

(3) ARPU represents average revenue per user. Gross ARPU is defined as monthly average spending per user including a customer's contribution to handset, or other devices, in a bundled service and hardware plan. Net ARPU is defined as monthly average spending per user excluding a customer's contribution to handset, or other devices, in a bundled service and hardware plan.

(4) AMPU represents average margin per user. Net AMPU equals net ARPU less direct variable costs (including interconnection charges and roaming costs).

Capital expenditure on property, plant and equipment in 2013 amounted to HK\$657 million (2012: HK\$879 million), accounting for 13% (2012: 16%) of mobile service revenue. Lower capital expenditure was spent in 2013 as roll-out of our 4G LTE network was completed. EBITDA less capital expenditure was HK\$913 million in 2013, representing a 24% reduction compared with 2012.

Mobile capex



Summary of spectrum investment ⁽¹⁾

Spectrum band	Bandwidth	Year of expiry
900 MHz	10 MHz	2026
900 MHz	16.6 MHz	2020
1800 MHz	23.2 MHz	2021
2100 MHz	34.6 MHz	2016
2300 MHz	30 MHz	2027
2600 MHz	30 MHz ⁽²⁾	2024
2600 MHz	10 MHz ⁽²⁾	2028

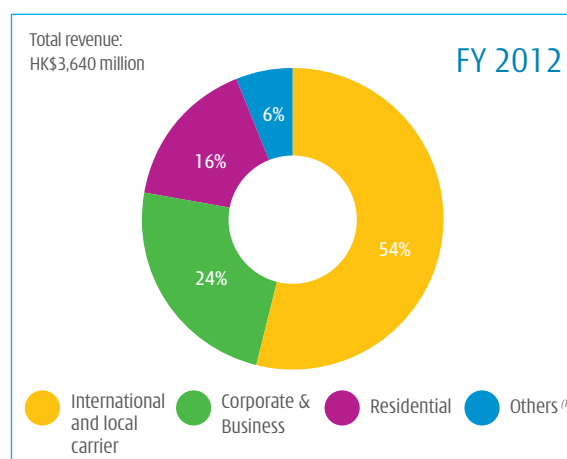
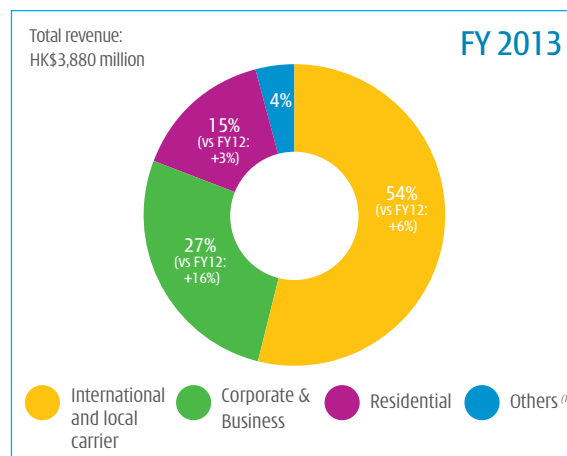
(1) Hong Kong only

(2) Shared under a 50:50 joint venture - Genius Brand Limited

Fixed-line business

Turnover increased from HK\$3,640 million in 2012 to HK\$3,880 million in 2013, an increase of 7%. All major segments of the fixed-line business reported growth. Corporate and business market recorded a growth of 16% from HK\$891 million in 2012 to HK\$1,035 million in 2013 while we expanded our service portfolio to bring greater values to our customers. Revenue from the international and local carrier market increased as we extended our global reach and consolidated our leadership in the region. It continued to account for the largest share of total fixed-line revenue, rising 6% from HK\$1,958 million in 2012 to HK\$2,083 million in 2013. Revenue from the residential market grew by 3% from HK\$584 million in 2012 to HK\$602 million in 2013 to reflect the growing demand for high-speed broadband services.

Fixed-line revenue



(1) Others include revenue from interconnection charges and data centres.

EBITDA increased by 18% from HK\$1,050 million in 2012 to HK\$1,234 million in 2013. EBITDA margin improved from 29% in 2012 to 32% in 2013. EBIT amounted to HK\$508 million in 2013, representing an increase of 33% compared with HK\$383 million in 2012.

Capital expenditure on property, plant and equipment amounted to HK\$623 million in 2013 (2012: HK\$725 million), representing 16% (2012: 20%) of fixed-line service revenue. EBITDA less capital expenditure improved from HK\$325 million in 2012 to HK\$611 million in 2013.

Fixed-line capex

