

Management Discussion and Analysis

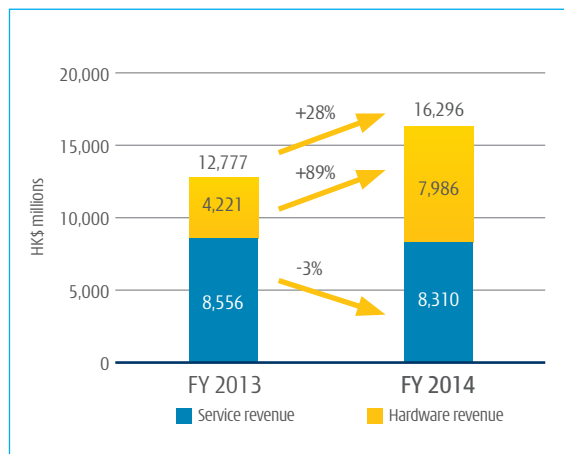
Financial Review

Consolidated turnover in 2014 was HK\$16,296 million, increasing by 28% when compared with HK\$12,777 million in 2013. The increase was mainly due to an increase of 89% in hardware revenue from HK\$4,221 million in 2013 to HK\$7,986 million in 2014. The total service revenue in 2014 was HK\$8,310 million, a slight decrease of 3% against HK\$8,556 million in 2013, mainly due to the decrease in mobile service revenue by 10%, partially offset by the increase in fixed-line service revenue of 6%.

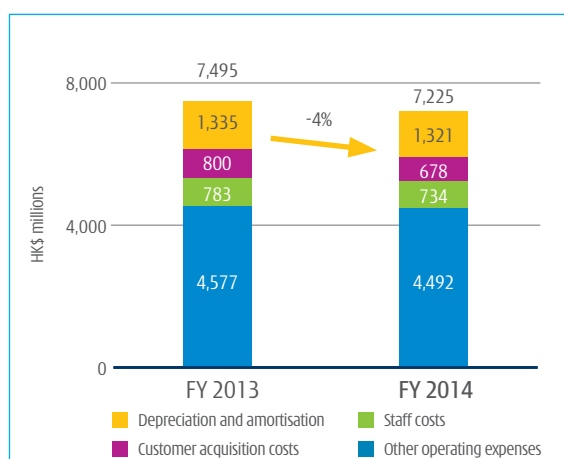
Comparing the second half of 2014 against its first half, total service revenue slightly increased by 1% as the 4% growth in fixed-line service revenue was partially offset by the 2% decrease in mobile service revenue as a result of increased churns of lower-ARPU customers after a planned strategy to focus more on serving higher-ARPU data centric customers. Hardware revenue increased by 182% due to the launch of popular handset models in the second half of 2014.

Total operating expenses, excluding cost of inventories sold, amounted to HK\$7,225 million in 2014, reducing by 4% when compared with HK\$7,495 million in 2013, as a result of continuous stringent cost control and efficiency improvement.

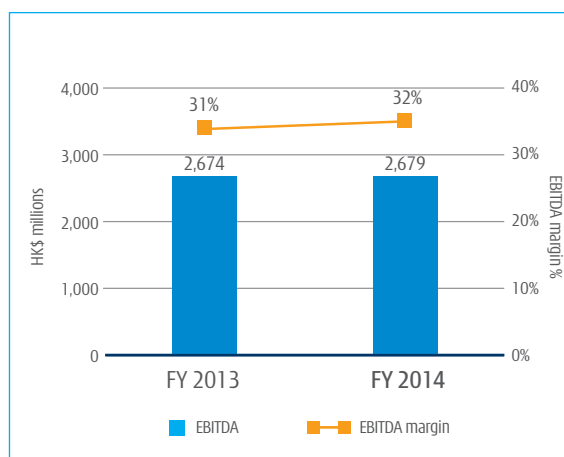
Consolidated turnover



Key cost items



Consolidated EBITDA



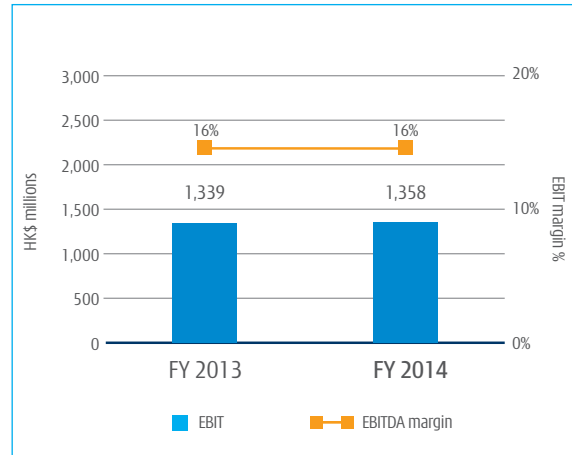
Consolidated EBITDA was HK\$2,679 million in 2014, comparable with HK\$2,674 million in 2013, with EBITDA margin⁽¹⁾ increasing from 31% in 2013 to 32% in 2014, mainly due to improved operating performance of mobile and fixed-line businesses as well as efficient cost management. Depreciation and amortisation amounted to HK\$1,321 million in 2014, a decrease of 1% when compared with 2013. Consolidated EBIT was HK\$1,358 million in 2014, broadly in line with 2013.

Interest and other finance costs decreased by 3% from HK\$181 million in 2013 to HK\$175 million in 2014 mainly as a result of lower notional finance charge on decreasing licence fees liabilities and lower finance cost on decreasing level of bank borrowings. Gearing ratio as at 31 December 2014, calculated by dividing net debt by net total capital, was 23% (31 December 2013: 28%). Share of losses of joint ventures in 2014 amounted to HK\$35 million compared with HK\$12 million in 2013. The increase in share of losses was mainly due to additional pre-operating expenditure of a newly opened data centre in March 2014.

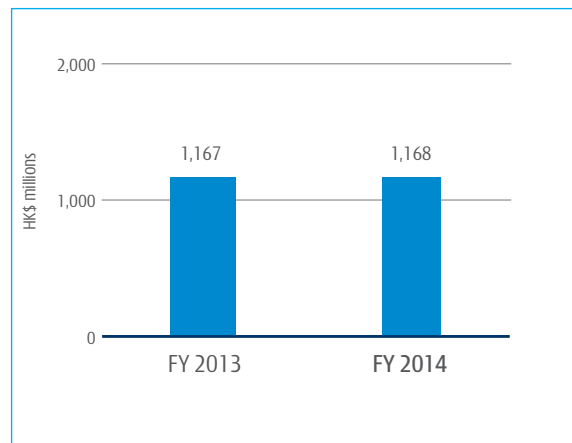
Accordingly, profit before taxation was HK\$1,168 million in 2014, maintaining at the same level when compared with HK\$1,167 million in 2013. Following years of profitability of the mobile business, carried forward tax losses have effectively been utilised, resulting in an increase in deferred tax expense being booked in the year. Together with the profits generated by both mobile and fixed-line businesses, taxation increased significantly from HK\$77 million in 2013 to HK\$205 million in 2014.

Overall, profit attributable to shareholders of the Company in 2014 was HK\$833 million, a decrease of 9% when compared with HK\$916 million in 2013, mainly as a result of increased deferred tax expense as mentioned above.

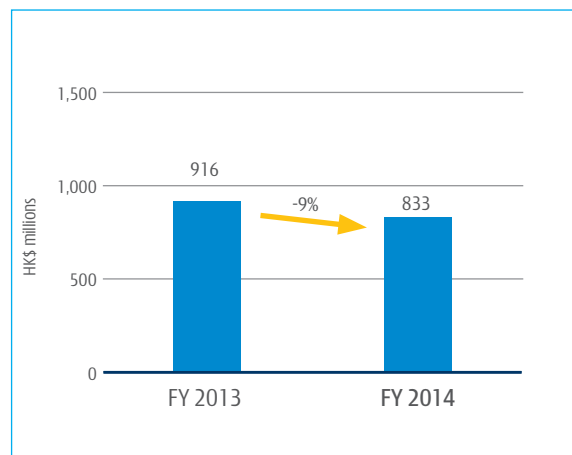
Consolidated EBIT



Profit before taxation



Profit attributable to shareholders



Note:

(1) EBITDA or EBIT margin % represents EBITDA or EBIT as a percentage of total service revenue (total revenue less hardware revenue).

Business Review

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

Hong Kong and Macau Mobile business highlights

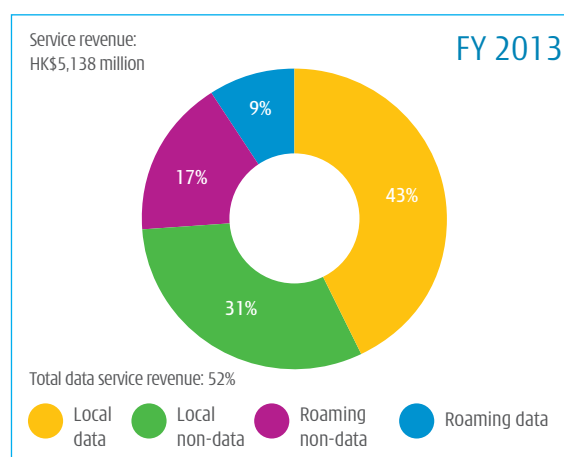
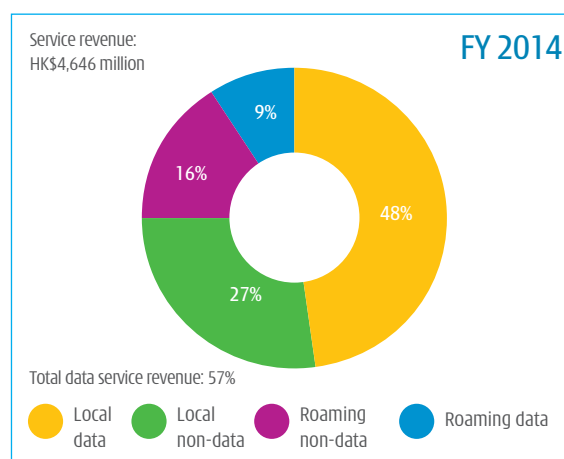
	For the year ended 31 December 2014 HK\$ millions	For the year ended 31 December 2013 HK\$ millions	2014 vs 2013 Change	For the six months ended 31 December 2014 HK\$ millions	For the six months ended 30 June 2014 HK\$ millions	2014 2H vs 2014 1H Change
Total revenue	12,632	9,359	+35%	8,194	4,438	+85%
- Service revenue	4,646	5,138	-10%	2,298	2,348	-2%
- Hardware revenue	7,986	4,221	+89%	5,896	2,090	+182%
Net customer service revenue margin % ⁽²⁾	89%	87%	+2% points	90%	89%	+1% point
EBITDA	1,497	1,570	-5%	883	614	+44%
EBITDA margin % ⁽¹⁾	32%	31%	+1% point	38%	26%	+12% points
Depreciation and amortisation	(620)	(609)	-2%	(314)	(306)	-3%
EBIT	877	961	-9%	569	308	+85%
CAPEX	(664)	(657)	-1%	(444)	(220)	-102%
EBITDA less CAPEX	833	913	-9%	439	394	+11%

Total revenue of the mobile business in 2014 was HK\$12,632 million, increased by 35% when compared with 2013. Hardware revenue grew by 89% to HK\$7,986 million in 2014 when compared with that in 2013 as a result of increased standalone hardware sales in the second half of 2014. The mobile service revenue decreased by 10% to HK\$4,646 million in 2014 when compared with that in 2013 as a result of intense price pressure in the first half of 2014, resulted in increased churns of lower-ARPU customers, as well as decrease in demand for non-data and roaming services. Total data service revenue⁽³⁾ from local and overseas accounted for 57% of mobile service revenue in 2014, which was higher than 52% in 2013. Despite the overall decrease in service revenue, the service revenue margin improved to 89% in 2014 compared with 87% in 2013 due to better control over direct variable costs.

Notes:

- (2) Net customer service revenue margin is defined as service revenue less direct variable costs (including interconnection charges and roaming costs).
- (3) Data service revenue is defined as customer payment for internet and data access services, excluding messaging, content and related services. Non-data is defined as customer payment for items including voice, messaging, content and related services.

Mobile service revenue



EBITDA was HK\$1,497 million in 2014, decreasing by 5% when compared with that in 2013. Corresponding EBIT was HK\$877 million in 2014, representing a decrease of 9% when compared with that in 2013 mainly as a result of additional expenses incurred after the launch of 4G LTE network before reaching critical mass. EBITDA margin improved by 1% to 32% in 2014 as a result of efficiency improvement and stringent cost control.

Comparing the second half of 2014 against its first half, the mobile service revenue recorded a 2% decline mainly due to increased churns of lower-ARPU customers, partially offset by the improving ARPU from newly acquired data centric customers since the third quarter of 2014. On the other hand, hardware revenue increased by 182% as a result of increased standalone handset sales in the second half of 2014. With better overall turnover and continued focus on cost management, EBITDA and EBIT in 2014 increased by 44% and 85%, respectively.

As of 31 December 2014, the Group was serving approximately 3.2 million customers (31 December 2013: 3.8 million) in Hong Kong and Macau, of which postpaid customers totalled approximately 1.7 million (31 December 2013: 1.9 million), being 52% of total customer base (31 December 2013: 51%). The decrease in postpaid and prepaid customer number was mainly due to increased churns among lower-ARPU customer as mentioned above under a planned strategy to focus more on serving higher-ARPU data centric customers and thus the churn rate of postpaid customers increased slightly to 2.0% in 2014, compared with 1.9% in 2013.

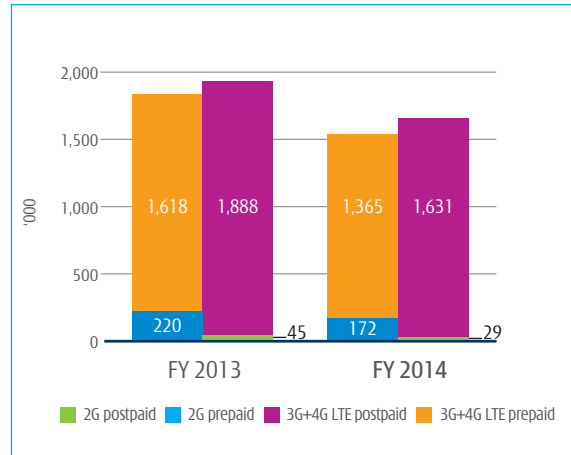
As of 31 December 2014, 65% of 3G and 4G LTE postpaid customers in Hong Kong and Macau were smart device users (31 December 2013: 61%). Blended postpaid net ARPU⁽⁴⁾ in the second half of 2014 was HK\$205 compared with HK\$197 in the first half of 2014, reflecting more customer upgrades and price recovery of tariff plans. Blended postpaid net AMPU⁽⁵⁾ in the second half of 2014 was HK\$182, compared with HK\$173 in the first half of 2014, following a disciplined control over direct variable costs.

Notes:

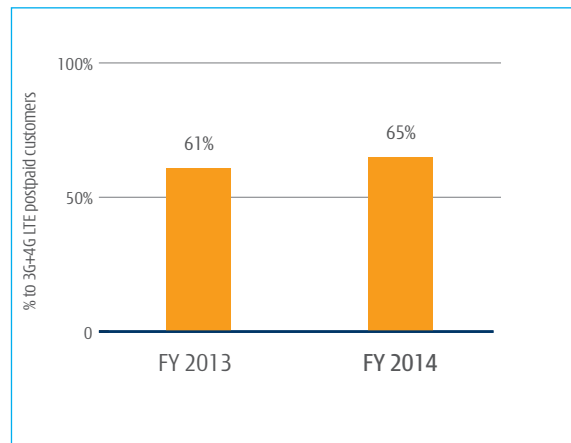
(4) Gross ARPU is defined as monthly average spending per user including a customer's contribution to handset, or other devices, in a bundled service and hardware plan in 6-month period. Net ARPU is defined as monthly average spending per user excluding a customer's contribution to handset, or other devices, in a bundled service and hardware plan in 6-month period.

(5) Net AMPU represents average net margin per user. Net AMPU equals net ARPU less direct variable costs (including interconnection charges and roaming costs) in 6-month period.

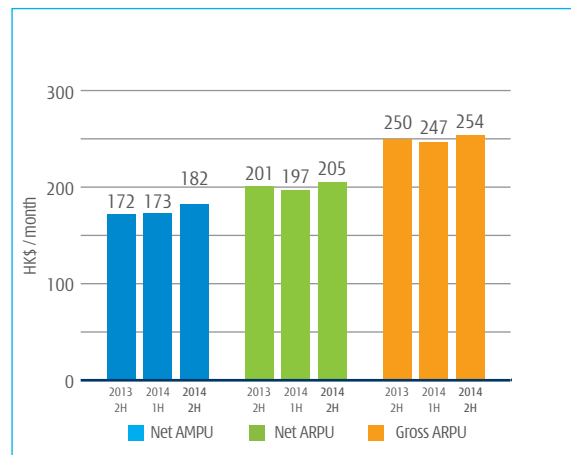
Total customers



Smart device penetration

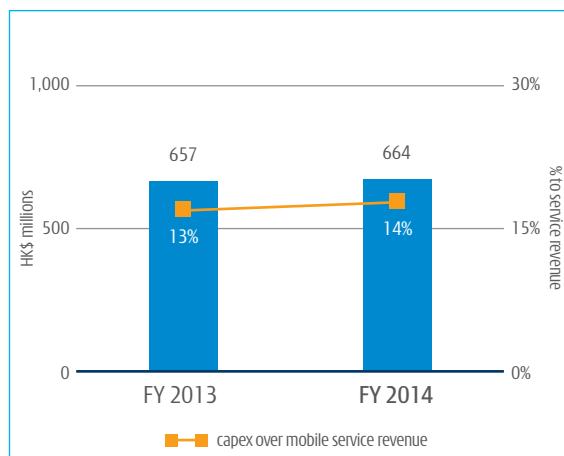


Blended postpaid ARPU and net AMPU



Capital expenditure on property, plant and equipment in 2014 amounted to HK\$664 million (2013: HK\$657 million), accounting for 14% (2013: 13%) of mobile service revenue. A stable and disciplined capital expenditure recorded in 2014 reinforced the commitment on network modernisation and expansion to support long-term business growth while implementing efficient cost management.

Mobile capex



Summary of spectrum investment as of 31 December 2014

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	34.6 MHz	2016 ⁽⁶⁾
2300 MHz	30 MHz	2027
2600 MHz	30 MHz*	2024
2600 MHz	10 MHz*	2028
Macau		
900 MHz	15.6 MHz	2023
1800 MHz	10 MHz	2023 ⁽⁷⁾
2100 MHz	20 MHz	2023

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

Notes:

(6) Related licence will be extended to year 2031. Please refer to paragraph headed "Acquisition of Radio Spectrum" under section "Group Capital Resources and Other Information" for details.

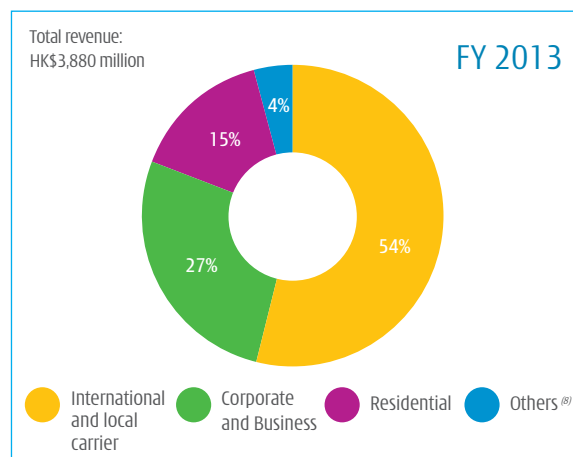
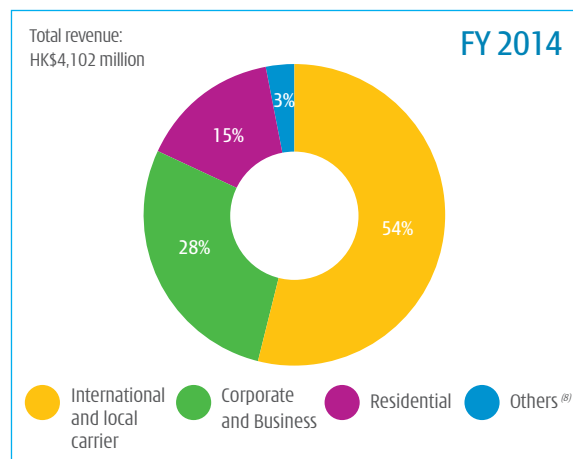
(7) Related licence was extended to year 2023 with related bandwidth reduced to 8.8 MHz from year 2015.

Fixed-line business highlights

	For the year ended 31 December 2014 HK\$ millions	For the year ended 31 December 2013 HK\$ millions	2014 vs 2013 Change	For the six months ended 31 December 2014 HK\$ millions	For the six months ended 30 June 2014 HK\$ millions	2014 2H vs 2014 1H Change
Total revenue	4,102	3,880	+6%	2,089	2,013	+4%
EBITDA	1,307	1,234	+6%	676	631	+7%
EBITDA margin % ⁽¹⁾	32%	32%	no change	32%	31%	+1% point
Depreciation and amortisation	(701)	(726)	+3%	(353)	(348)	-1%
EBIT	606	508	+19%	323	283	+14%
CAPEX	(534)	(623)	+14%	(334)	(200)	-67%
EBITDA less CAPEX	773	611	+27%	342	431	-21%

Total revenue increased by 6% from HK\$3,880 million in 2013 to HK\$4,102 million in 2014. The overall increase was mainly contributed by higher revenue generated from the international and local carrier markets as well as the corporate and business markets. In 2014, international and local carrier markets continued to be the main contributor to the fixed-line revenue, which increased by 6% to HK\$2,213 million when compared with HK\$2,083 million in 2013. Due to increased demand for comprehensive solution-based services by corporate and business market customers, revenue from related market increased by 11% from HK\$1,035 million in 2013 to HK\$1,144 million in 2014. Revenue from the residential market was HK\$597 million in 2014, a mild decline compared with HK\$602 million in 2013 as a result of a transition in change of sales mix in serving customers with high data speed requirements with the advanced infrastructure.

Fixed-line revenue



Note:

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

EBITDA in 2014 amounted to HK\$1,307 million, representing an increase of 6% from HK\$1,234 million in 2013. EBITDA margin in 2014 was 32%, maintaining at the same level as 2013. EBIT in 2014 amounted to HK\$606 million, representing an increase of 19% compared with HK\$508 million in 2013.

Comparing the second half of 2014 against its first half, the fixed-line revenue increased by 4% as a result of higher revenue generated from international and local carrier markets as well as from corporate and business markets due to higher demand from new and existing carrier and business customers. EBITDA of the fixed-line business increased by 7% while EBIT increased by 14%.

Capital expenditure on property, plant and equipment in 2014 amounted to HK\$534 million (2013: HK\$623 million), representing 13% (2013: 16%) of fixed-line service revenue which highlighted continued focus on network expansion and enhancement to support long-term business growth.

Fixed-line capex

