

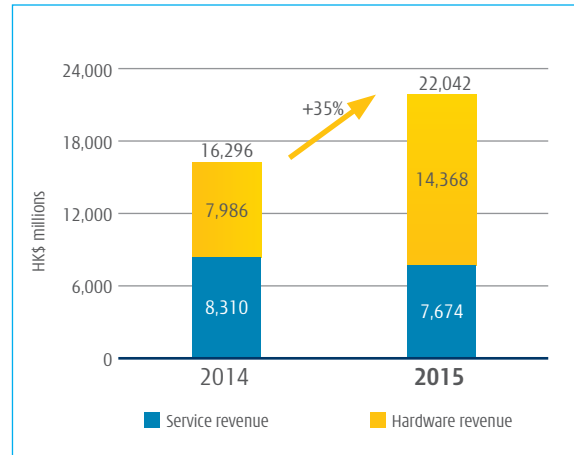
Management Discussion and Analysis

Financial Review

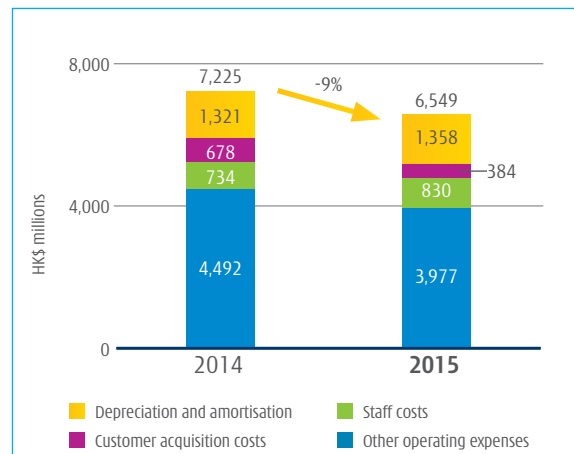
Consolidated revenue in 2015 was HK\$22,042 million, an increase of 35% compared to HK\$16,296 million in 2014. The increase was mainly due to an 80% increase in hardware revenue from HK\$7,986 million in 2014 to HK\$14,368 million in 2015. Total service revenue in 2015 was HK\$7,674 million, a decrease of 8% compared to HK\$8,310 million in 2014, mainly due to the drop in mobile roaming revenue as consistent with global declining trend.

Total operating expenses, excluding cost of inventories sold, amounted to HK\$6,549 million in 2015, a decrease of 9% compared to HK\$7,225 million in 2014, mainly as a result of adoption of more cost-effective promotional channels on customer acquisition as well as a reduction in direct variable expenses including roaming costs.

Consolidated revenue



Key cost items



Consolidated EBITDA in 2015 was HK\$2,788 million, an increase of 4% compared to HK\$2,679 million in 2014 while the consolidated service EBITDA in 2015 was HK\$2,480 million, an increase of 3% compared to HK\$2,406 million in 2014. Service EBITDA margin increased to 32% in 2015 from 29% in 2014, mainly due to efficiency achieved from various automation initiatives on internal procedures and processes including customer order handling and customer service of the mobile and fixed-line businesses. Depreciation and amortisation amounted to HK\$1,358 million in 2015, compared to HK\$1,321 million in 2014, a slight increase primarily due to the enhancement of 4G LTE network infrastructure. Consolidated EBIT was HK\$1,430 million in 2015, an increase of 5% compared to HK\$1,358 million in 2014.

Net interest and other finance costs decreased by 34% from HK\$155 million in 2014 to HK\$103 million in 2015 mainly as a result of favourable interest rate subsequent to the refinancing completed in December 2014. Gearing ratio as at 31 December 2015, calculated by dividing net debt by net total capital, was 20% (2014: 23%).

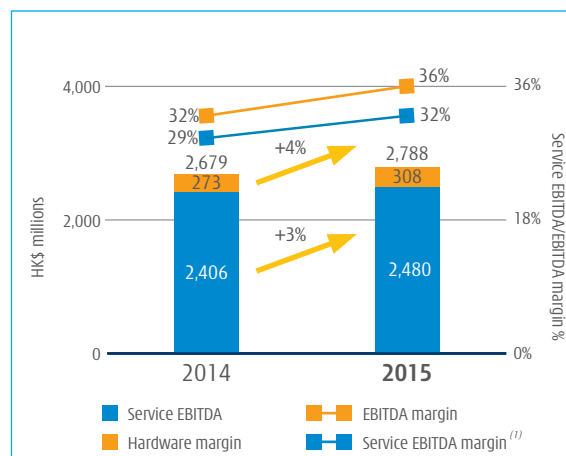
Share of losses of joint ventures in 2015 recorded at HK\$34 million, comparable to HK\$35 million in 2014, mainly due to a developing scale of operation in the data centres.

Overall, profit attributable to shareholders of the Company in 2015 was HK\$915 million, an increase of 10% compared to HK\$833 million in 2014.

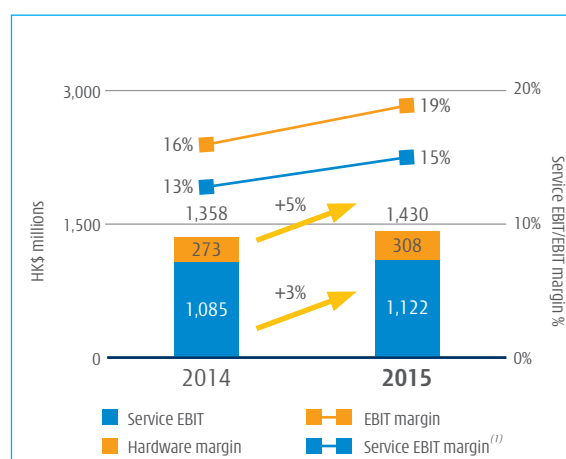
Note:

(1) Service EBITDA margin or service EBIT margin represents EBITDA or EBIT excluding standalone handset sales margin as a percentage of total service revenue.

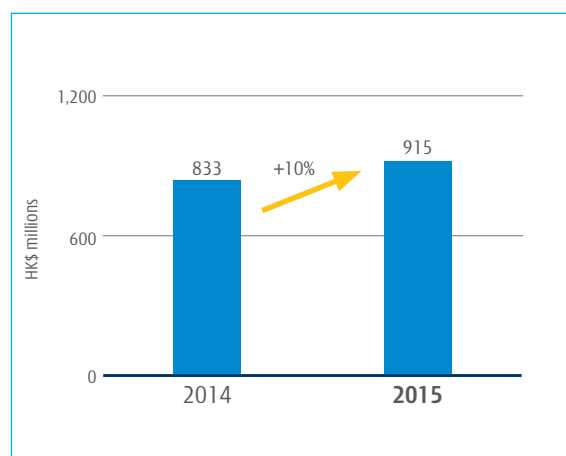
Consolidated EBITDA



Consolidated EBIT



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 year ended 31 December 2015 HK\$ millions	For the year ended 31 December 2014 HK\$ millions	Favourable/ (unfavourable) change
Total revenue	18,477	12,632	+46%
- Net customer service revenue	4,106	4,646	-12%
- Hardware revenue	14,371	7,986	+80%
- Bundled sales revenue	815	1,164	-30%
- Standalone handset sales revenue	13,556	6,822	+99%
Net customer service margin ⁽²⁾	3,823	4,152	-8%
<i>Net customer service margin %</i>	93%	89%	+4% points
Standalone handset sales margin	308	273	+13%
Total CACs ⁽³⁾	(1,085)	(1,719)	+37%
Less: Bundled sales revenue	815	1,164	-30%
Total CACs (net of handset revenue)	(270)	(555)	+51%
Operating expenses	(2,224)	(2,373)	+6%
<i>Opex as a % of net customer service margin</i>	58%	57%	-1% point
EBITDA	1,637	1,497	+9%
Service EBITDA⁽⁴⁾	1,329	1,224	+9%
<i>Service EBITDA Margin %</i>	32%	26%	+6% points
Depreciation and amortisation	(661)	(620)	-7%
EBIT	976	877	+11%
CAPEX (excluding licence)	(574)	(664)	+14%
EBITDA less CAPEX	1,063	833	+28%
Licence	(3)	(3)	-

Notes:

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

(3) CACs represents customer acquisition costs.

(4) Service EBITDA is defined as EBITDA less standalone handset sales margin.

Mobile business total revenue in 2015 was HK\$18,477 million, an increase of 46% compared to HK\$12,632 million in 2014. Mobile hardware revenue in 2015 was HK\$14,371 million, an increase of 80% compared to 2014 as a result of the popularity of smartphones. Mobile net customer service revenue in 2015 was HK\$4,106 million, a 12% decline compared to HK\$4,646 million in 2014 as a result of a 27% decrease in roaming revenue. Corresponding net customer service margin declined by 8% to HK\$3,823 million compared to 2014. Nevertheless, with the dedicated effort to reduce direct roaming cost, the net customer service margin percentage in 2015 improved to 93% (2014: 89%). Excluding the roaming factors in both years, the local net customer service margin in 2015, after deducting direct variable costs, was in line with 2014 as a result of better local net ARPU by upgrading customers to use 4G LTE services partially offset by the negative effect brought from the churn of low-margin postpaid customers in 2015.

EBITDA and EBIT in 2015 were HK\$1,637 million and HK\$976 million respectively, an improvement of 9% and 11% respectively when compared to 2014. The increases were mainly due to growth in mobile business total revenue and continued focus on operational efficiency. Service EBITDA margin percentage improved to 32% in 2015 from 26% in 2014.

As at 31 December 2015, the Group was serving approximately 3.0 million customers in Hong Kong and Macau (30 June 2015: 2.9 million), of which the number of postpaid customers was approximately 1.5 million (30 June 2015: 1.5 million). The churn of low-margin postpaid customers was reduced in the second half of 2015. The churn rate of postpaid customers was 1.8% in 2015, which was comparable to 2.0% recorded in 2014.

Blended local postpaid net ARPU⁽⁵⁾ in 2015 was HK\$161 compared to HK\$138 in 2014, reflecting increased data usage of customers. Blended local postpaid net AMPU⁽⁶⁾ in 2015 was HK\$154, compared to HK\$130 in 2014, following improved local ARPU and good control over direct variable costs.

Notes:

(5) Local postpaid net ARPU is defined as monthly average spending per postpaid user excluding roaming revenue and revenue related to handset under the non-subsidised handset business model. Prior year figure has been adjusted to conform to current year presentation.

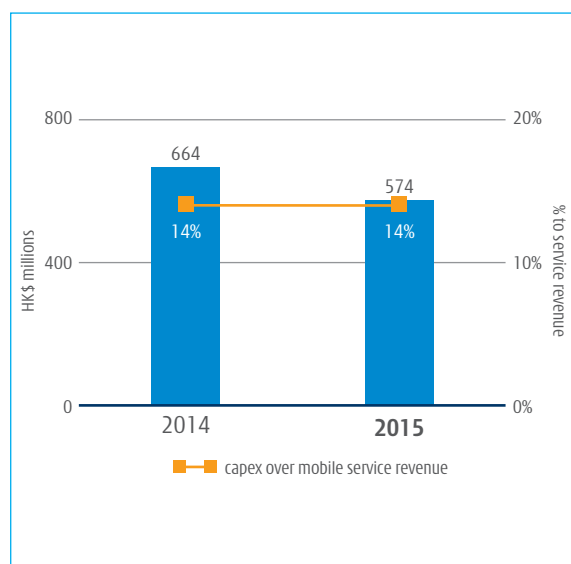
(6) Local postpaid net AMPU represents average net margin per postpaid user. Local postpaid net AMPU equals local postpaid net ARPU less direct variable costs (including interconnection charges). Prior year figure has been adjusted to conform to current year presentation.

Key performance indicators for mobile business

	For the year ended 31 December 2015	For the year ended 31 December 2014	Favourable/ (unfavourable) change
Number of postpaid customers ('000)	1,484	1,660	-11%
Number of prepaid customers ('000)	1,547	1,537	+1%
Total customers ('000)	3,031	3,197	-5%
Postpaid customers to the total customer base (%)	49%	52%	-3% points
Postpaid customers' contribution to the net customer service revenue (%)	93%	94%	-1% point
Monthly postpaid churn rate (%)	1.8%	2.0%	+0.2% point
Local postpaid gross ARPU ⁽⁷⁾ (HK\$)	212	188	+13%
Local postpaid net ARPU (HK\$)	161	138	+17%
Local postpaid net AMPU (HK\$)	154	130	+18%

Capital expenditure on property, plant and equipment in 2015 amounted to HK\$574 million (2014: HK\$664 million), accounting for 14% (2014: 14%) of mobile service revenue, reflecting a disciplined level of capital expenditure spending.

Mobile capex



Summary of spectrum investment as of 31 December 2015

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 ⁽⁸⁾
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

Notes:

(7) Local postpaid gross ARPU is defined as monthly average spending per postpaid user including a customer's contribution to mobile devices in a bundled plan, excluding roaming revenue. Prior year figure has been adjusted to conform to current year presentation.

(8) Related licence will be extended to year 2031 for the spectrum with a total bandwidth of 29.6 MHz.

Fixed-line business highlights

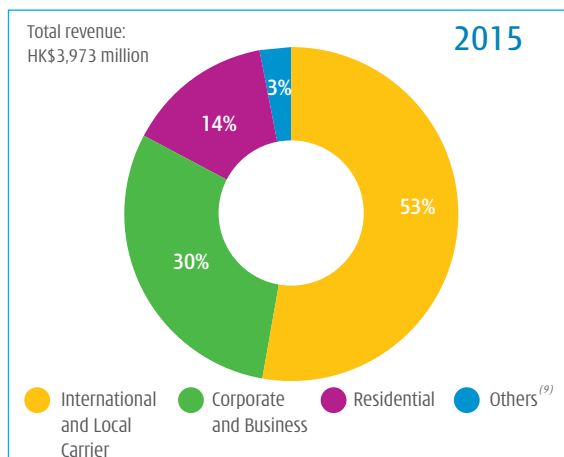
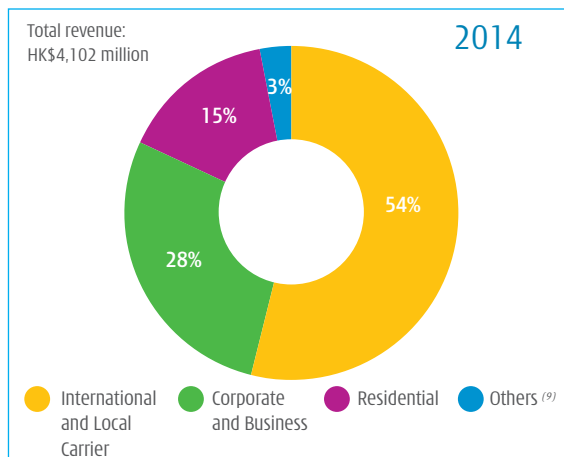
	For the year ended 31 December 2015 HK\$ millions	For the year ended 31 December 2014 HK\$ millions	Favourable/ (unfavourable) change
Revenue	3,973	4,102	-3%
Total CACs and Operating expenses	(2,699)	(2,795)	+3%
<i>Total CACs and Opex as % of revenue</i>	68%	68%	-
EBITDA	1,274	1,307	-3%
<i>EBITDA margin %</i>	32%	32%	-
Depreciation and amortisation	(697)	(701)	+1%
EBIT	577	606	-5%
CAPEX (excluding licence)	(485)	(534)	+9%
EBITDA less CAPEX	789	773	+2%

Fixed-line service revenue in 2015 was HK\$3,973 million, a decrease of 3% compared to HK\$4,102 million in 2014. Revenue from the international and local carrier market in 2015 decreased by 5% to HK\$2,106 million mainly due to reduced demand in international direct dialing (“IDD”), which was partially offset by gradual increase in data demand as a result of growing popularity of “Over-the-Top” applications and “Internet-of-Things” related devices. Revenue from the corporate and business market in 2015 increased by 3% to HK\$1,180 million as a result of continued increasing demand on bandwidth capacity and solution-based products. Revenue from the residential market in 2015 decreased by 7% to HK\$557 million as a result of competitive pricing in certain segments. The Group will continue to focus on penetrating market segments requiring high data speed.

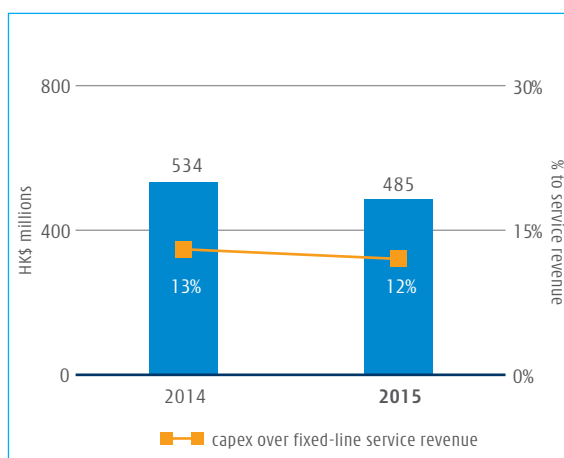
EBITDA in 2015 was HK\$1,274 million, a decrease of 3% compared to HK\$1,307 million in 2014 mainly as a result of drop in IDD revenue and local backhaul leased line revenue, which was partially offset by operational efficiency savings on overhead costs. EBITDA margin, on the other hand, maintained at 32% in both years. EBIT in 2015 amounted to HK\$577 million, a decrease of 5% compared to HK\$606 million in 2014.

Capital expenditure on property, plant and equipment in 2015 amounted to HK\$485 million (2014: HK\$534 million), representing 12% (2014: 13%) of fixed-line service revenue.

Fixed-line service revenue



Fixed-line capex



Note:

(9) "Others" includes revenue from interconnection charges and others.