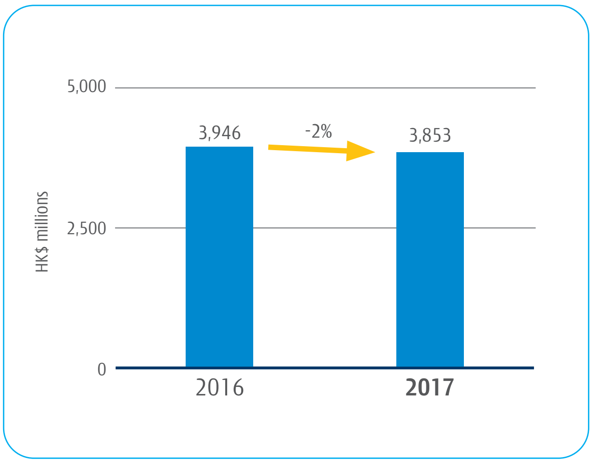
Mobile Business Highlights – Excluding One-off Charges

	For the year ended 31 December 2017 HK$ million	For the year ended 31 December 2016 HK$ million (Restated)	Favourable/ (unfavourable) Change
Total mobile revenue	6,752	8,332	-19%
Net customer service revenue	3,853	3,946	-2%
– Local service revenue	3,176	3,224	-1%
– Roaming service revenue	677	722	-6%
Hardware revenue	2,899	4,386	-34%
– Bundled sales revenue	750	712	+5%
– Standalone handset sales revenue	2,149	3,674	-42%
Net customer service margin	3,573	3,656	-2%
Net customer service margin %	*93%*	*93%*	–
Standalone handset sales margin	58	73	-21%
Total CACs	(1,027)	(1,037)	+1%
Less: Bundled sales revenue	750	712	+5%
Total CACs (net of handset revenue)	(277)	(325)	+15%
Operating expenses and staff costs	(2,081)	(2,071)	–
Operating expenses and staff costs as a % of net customer service margin	*58%*	*57%*	*-1% point*
Mobile EBITDA	1,339	1,397	-4%
Mobile Service EBITDA	1,281	1,324	-3%
Mobile Service EBITDA margin %	*33.2%*	*33.6%*	*-0.4% point*
Depreciation and amortisation	(822)	(733)	-12%
Mobile EBIT	470	620	-24%
Mobile Service EBIT	412	547	-25%
CAPEX (excluding licence)	(533)	(589)	+10%
Mobile EBITDA less CAPEX	806	808	–

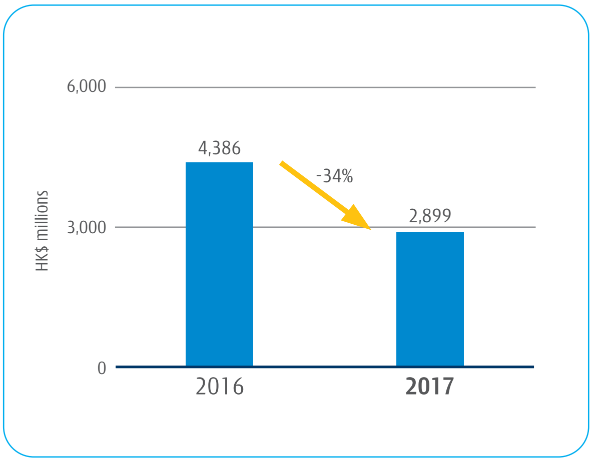
Mobile revenue in 2017 was HK$6,752 million, a 19% reduction compared with HK$8,332 million in 2016. More than 94% of the decline was attributable to lower hardware revenue as a result of lower demand for new smartphones. Service revenue in 2017 was HK$3,853 million, a 2% decrease compared with HK$3,946 million in 2016. Local service revenue in 2017 was generally in line with that of 2016, despite intense market competition. Roaming revenue rallied in the second half of 2017 and improved 6% compared with that of the first half of 2017 following launch of innovative roaming packages in collaborations with global telecommunications carriers. Full year roaming revenue in 2017 showed a decrease of 6% compared with that of 2016 and against the double digit year-on-year decrease recorded in previous years.

Service revenue



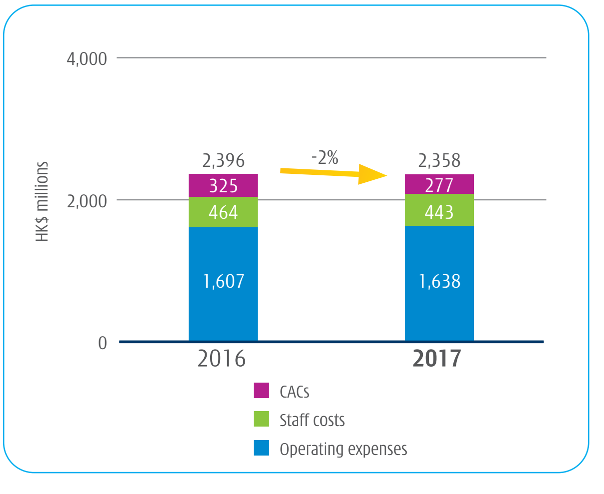
Hardware revenue was HK$2,899 million in 2017, a decrease of 34% from HK$4,386 million in 2016, resulting from lower demand for new smartphones.

Hardware revenue



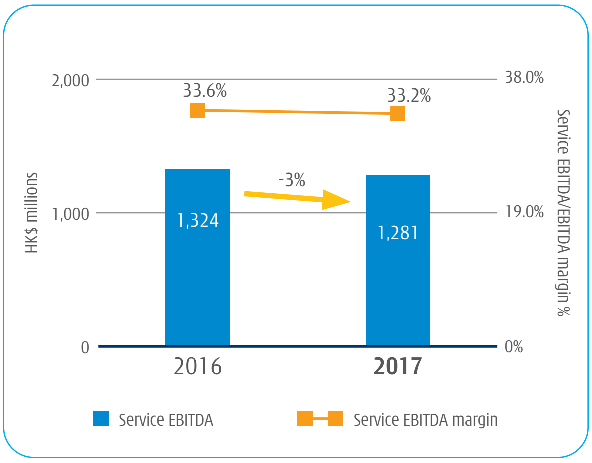
Total CACs, staff costs and operating expenses amounted to HK$2,358 million in 2017, a decrease of 2% from HK$2,396 million in 2016, mainly the result of improvement in retaining valuable customers with newly launched loyalty programmes as well as control of operating expenses.

Key cost items



Mobile service EBITDA in 2017 was HK$1,281 million, a 3% decrease compared with HK$1,324 million in 2016, reflecting keen market competition in local data packages, partially offset by savings from control of operating expenses as mentioned above. Mobile service EBITDA margin was 33.2%.

Service EBITDA



Depreciation and amortisation before one-off charges amounted to HK$822 million in 2017 compared with HK$733 million in 2016. This increase was mainly the result of a higher amortisation charges in respect of spectrum utilisation fee for the 2100MHz band after the licence renewal and the 2300MHz band after activation in the last quarter of 2016.

Mobile EBIT in 2017 was HK$470 million, 24% lower than HK$620 million reported in 2016. This was mainly the full year effect of higher amortisation charges as mentioned above.

Key Performance Indicators

	For the year ended 31 December 2017	For the year ended 31 December 2016 (Restated)	Favourable/ (unfavourable) Change
Number of postpaid customers ('000)	1,487	1,486	-
Number of prepaid customers ('000)	1,841	1,736	+6%
Total customers ('000)	3,328	3,222	+3%
Postpaid customers to the total customer base (%)	45%	46%	-1% point
Postpaid customers' contribution[(1)] to the net customer service revenue (%)	90%	92%	-2% points
Monthly postpaid churn rate (%)	1.3%	1.3%	-
Postpaid gross ARPU[(1)] (HK$)	230	247	-7%
Postpaid net ARPU[(1)] (HK$)	197	205	-4%
Postpaid net AMPU[(1)] (HK$)	181	189	-4%

Note:

(1) The postpaid customers' contribution, ARPU and AMPU information for the year ended 31 December 2016 has been restated to exclude the mobile MVNO revenue.

As of 31 December 2017, the total number of customers recorded an increase of 3% to approximately 3.3 million in Hong Kong and Macau (2016: approximately 3.2 million), of which 45% were postpaid customers. Overall churn rate among postpaid customers remained stable at 1.3% in 2017 (2016: 1.3%). Blended postpaid net ARPU decreased by 4% from HK$205 in 2016 to HK$197 in 2017 as a result of keen market competition in local data packages.

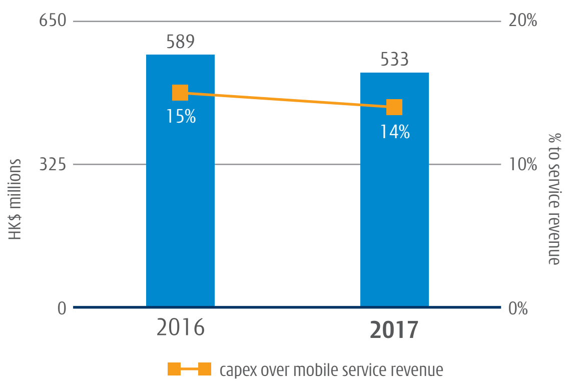
Net interest and other finance costs

Net interest and other finance costs from mobile business amounted to HK$90 million in 2017, an increase of 15% compared with HK$78 million in 2016. The increase in net interest and other finance costs was due to the write-off of bank commitment fee as a result of prepayment of bank borrowings as well as higher interest costs on bank borrowings, partially offset by lower notional finance charge on decreasing spectrum licence fee liabilities. As at 31 December 2017, the Group recorded a net cash position of HK$9,817 million, as a result of the receipt of cash proceeds from the disposal of its fixed-line business (31 December 2016: net debt to net total capital ratio of 25%). In January 2018, all the bank borrowings were repaid.

Capital expenditure

Capital expenditure on property, plant and equipment in 2017 amounted to HK$533 million (2016: HK$589 million), accounting for 14% (2016: 15%) of mobile service revenue. The Group scrutinises capital expenditure with due care to ensure all spending is revenue driven. Spending during the year was concentrated on long-term investment in network enhancement and capacity expansion for 4.5G technology.

Mobile capex



Summary of spectrum investment

as of 31 December 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*