

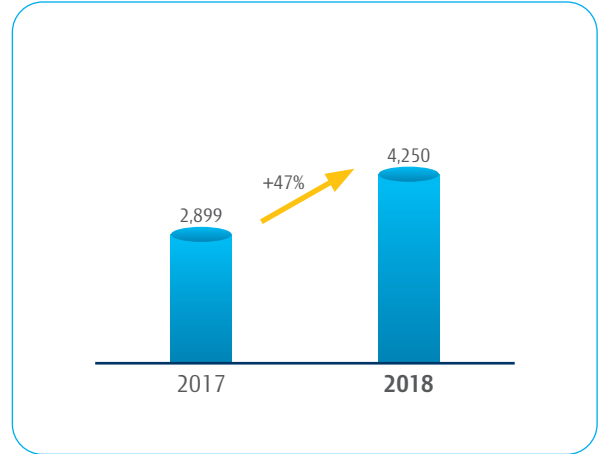
# Management Discussion and Analysis

## Financial Summary - Excluding Gain on Disposal of Subsidiaries and Other Items

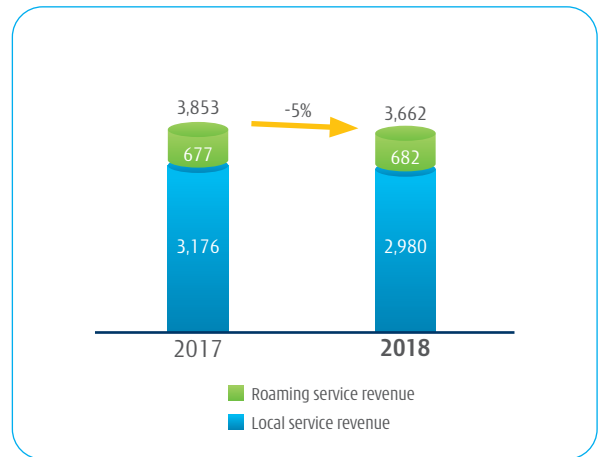
	2018 HK\$ million	2017 HK\$ million	Change
<b>Revenue</b>	<b>7,912</b>	6,752	+17%
Net customer service revenue	<b>3,662</b>	3,853	-5%
- Local service revenue	<b>2,980</b>	3,176	-6%
- Roaming service revenue	<b>682</b>	677	+1%
Hardware revenue	<b>4,250</b>	2,899	+47%
- Bundled sales revenue	<b>667</b>	750	-11%
- Standalone handset sales revenue	<b>3,583</b>	2,149	+67%
Net customer service margin	<b>3,318</b>	3,573	-7%
<i>Net customer service margin %</i>	<b>91%</b>	93%	-2% points
Standalone handset sales margin	<b>49</b>	58	-16%
CACs	<b>(827)</b>	(1,027)	+19%
Less: Bundled sales revenue	<b>667</b>	750	-11%
CACs (net of handset revenue)	<b>(160)</b>	(277)	+42%
Operating expenses and staff costs	<b>(2,123)</b>	(2,153)	+1%
<i>Operating expenses and staff costs as a % of net customer service margin</i>	<b>64%</b>	60%	-4% points
<b>EBITDA</b>	<b>1,157</b>	1,267	-9%
<b>Service EBITDA</b>	<b>1,108</b>	1,209	-8%
<i>Service EBITDA margin %</i>	<b>30%</b>	31%	-1% point
Depreciation and amortisation	<b>(768)</b>	(822)	+7%
<b>EBIT</b>	<b>339</b>	398	-15%
<b>Service EBIT</b>	<b>290</b>	340	-15%
CAPEX (excluding spectrum licences)	<b>(522)</b>	(533)	+2%
EBITDA less CAPEX	<b>635</b>	734	-13%

Revenue increased by 17% to HK\$7,912 million in 2018. Hardware revenue increased by 47% to HK\$4,250 million in 2018, primarily due to higher demand for new smartphones. Service revenue decreased by 5% to HK\$3,662 million in 2018, mainly the result of intense market competition in local data tariff pricing which led to a 6% decline in local service revenue. Roaming revenue improved by 1% to HK\$682 million with the launch of more innovative roaming data packages in 2018, which led to 24% increase in the roaming data revenue, substantially offset by the decrease of roaming voice revenue.

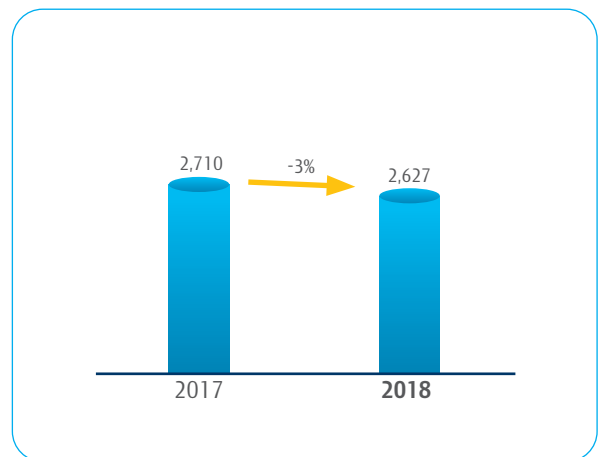
### Hardware revenue (HK\$ million)



### Service revenue (HK\$ million)



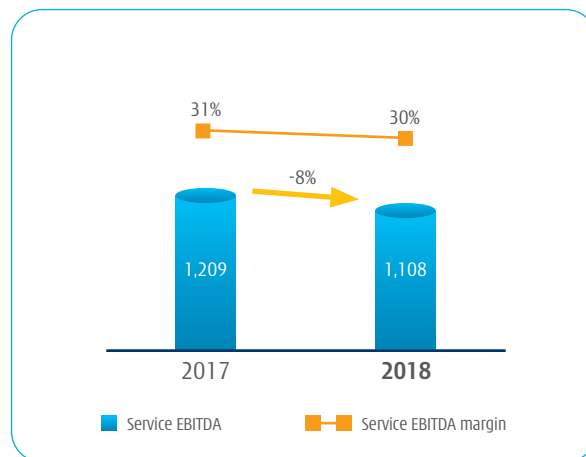
### Key cost items (HK\$ million)



CACs, staff costs and other operating expenses decreased by 3% to HK\$2,627 million in 2018, reflecting the favourable effect on capitalisation of certain incremental costs after adoption of IFRS 15 accounting standard as well as the Group's continued focus on efficiency enhancement and stringent expenditure control, partially offset by increase in roaming and other variable costs.

### Service EBITDA (HK\$ million) and EBITDA margin %

Service EBITDA decreased by 8% to HK\$1,108 million in 2018, broadly in line with the lower local service revenue which resulted from keen market competition in local data tariff packages. Service EBITDA margin was 30% in 2018, slightly decreasing by 1% from 2017.



Depreciation and amortisation excluding the one-off accelerated depreciation charge in 2017 decreased from HK\$822 million in 2017 to HK\$768 million in 2018. The change was mainly the result of decrease in depreciation charges after the accelerated depreciation exercise for certain 2G and 3G mobile telecommunications fixed assets in 2017, partially offset by additional amortisation charges of capitalised incremental costs of HK\$172 million after adoption of the IFRS 15 accounting standard.

EBIT was HK\$339 million in 2018, a 15% decrease compared with HK\$398 million reported in 2017.

### Key Performance Indicators

	2018	2017	Change
Number of postpaid customers ('000)	1,499	1,487	+1%
Number of prepaid customers ('000)	1,777	1,841	-3%
Total customers ('000)	3,276	3,328	-2%
Postpaid customers to the total customer base (%)	46%	45%	+1% point
Postpaid customers' contribution to the net customer service revenue (%)	90%	90%	-
Monthly churn rate of postpaid customers (%)	1.3%	1.3%	-
Postpaid gross ARPU (HK\$)	219	230	-5%
Postpaid net ARPU (HK\$)	186	197	-6%
Postpaid net AMPU (HK\$)	169	181	-7%

As of 31 December 2018, the total number of customers in Hong Kong and Macau was approximately 3.3 million (2017: approximately 3.3 million), of which 46% (2017: 45%) was postpaid customers. Monthly churn rate of postpaid customers remained stable at 1.3% in 2018 (2017: 1.3%) in a fiercely-competitive market. Blended postpaid gross ARPU decreased by 5% from HK\$230 in 2017 to HK\$219 in 2018.

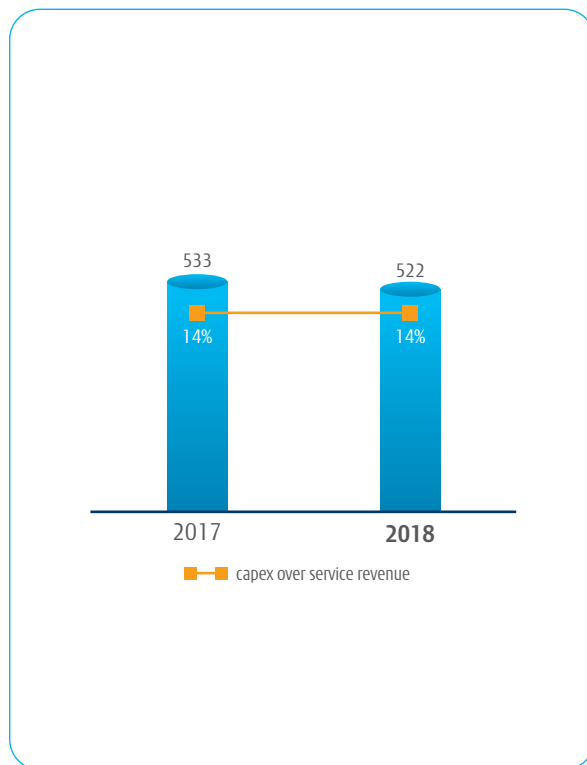
### Net Interest and Other Finance Costs

Net interest and other finance income amounted to HK\$193 million in 2018 compared with expense of HK\$60 million in 2017. The increase in net interest and other finance income was mainly 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 31 December 2018, the Group recorded a net cash position of HK\$9,555 million (2017: HK\$9,817 million), after settlement of transaction costs of the disposal of the fixed-line business and final dividend related to fixed-line contribution in 2017.

### Capital Expenditure

Capital expenditure on property, plant and equipment in 2018 amounted to HK\$522 million (2017: HK\$533 million), focusing on digital transformation project and the long-term investment in quality enhancement and capacity expansion on our advanced 4.5G mobile network. Capital expenditure in 2018 accounted for 14% (2017: 14%) of service revenue.

Capex (HK\$ million)



Summary of spectrum investment

as of 31 December 2018

Spectrum band	Bandwidth	Year of expiry
<b>Hong Kong</b>		
900 MHz	10 MHz	2026
900 MHz	16.6 MHz	2021 <sup>#</sup>
1800 MHz	23.2 MHz	2021 <sup>#</sup>
2100 MHz	29.6 MHz	2031
2300 MHz	30 MHz	2027
2600 MHz	30 MHz*	2024
2600 MHz	10 MHz*	2028
<b>Macau</b>		
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  
<sup>#</sup> After the spectrum auction and licence renewal in 2018, the licence period of the existing 16.6 MHz in 900 MHz band has been extended from November 2020 to January 2021 to align with the new spectrum assignment period. Accordingly, the Group will hold 10 MHz in 900 MHz band and 30 MHz in 1800 MHz band from 2021 to 2036.