

Management Discussion and Analysis ▶▶

Financial Review

Consolidated turnover was HK\$6,149 million for the first half of 2013. The 9% decrease in consolidated turnover when compared with the first half of 2012, was mainly the result of a 28% reduction in mobile hardware sales because fewer popular devices became available during the period. The reduction in mobile hardware sales was partially offset by a 3% increase in consolidated service revenue which was mainly the result of better performance in the carrier market of our fixed-line business, which was in turn partially offset by lower mobile service revenue, reflecting the effect of applying a non-subsidised handset business model. Cost of inventories sold declined, as did hardware sales, from HK\$2,369 million for the first half of 2012 to HK\$1,668 million for the same period in 2013.

Total operating expenses, excluding cost of inventories sold, increased from HK\$3,566 million for the first six months of 2012 to HK\$3,661 million for the same period in 2013, representing 3% growth, which was mainly the result of inflationary pressure. The 6% increase in staff costs was mainly because of salary increment and an increase in headcount. Customer acquisition costs, including cost of customer retentions, rose by 10% as a result of an increase in retention-related costs for the mobile business. Other operating expenses rose slightly by 2% for the first half of 2013 as a result of stringent cost control.

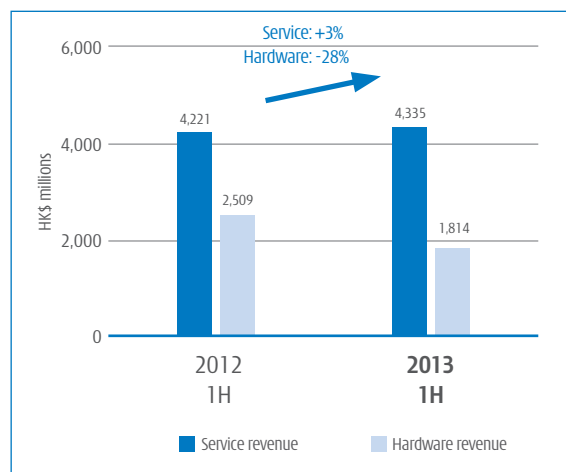
Consolidated EBITDA rose by 2% from HK\$1,440 million for the first six months of 2012 to HK\$1,471 million for the same period in 2013. Consolidated EBIT grew by 3% from HK\$795 million for the first half of 2012 to HK\$820 million for the first half of 2013.

Gearing ratio, calculated by dividing net debt by total net capital, was 27% (31 December 2012: 24%) as a result of increased borrowings. Interest and other finance costs rose from HK\$77 million for the first half of 2012 to HK\$87 million for the same period in 2013 due to the higher level of borrowings together with an increase in market interest rates.

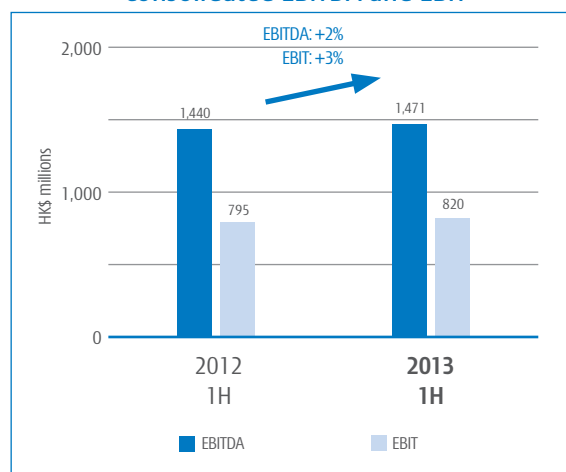
Share of losses, in respect of joint ventures for the first six months of 2013, amounted to HK\$4 million compared with HK\$2 million for the same period in 2012. Taxation was HK\$39 million for the first half of 2013 compared with HK\$23 million for the same period in 2012, as a result of better performance of the fixed-line business, while the tax losses in mobile business were not yet fully utilised.

Overall, the profit attributable to shareholders of the Company grew from HK\$562 million for the first six months of 2012 to HK\$572 million for the corresponding period in 2013.

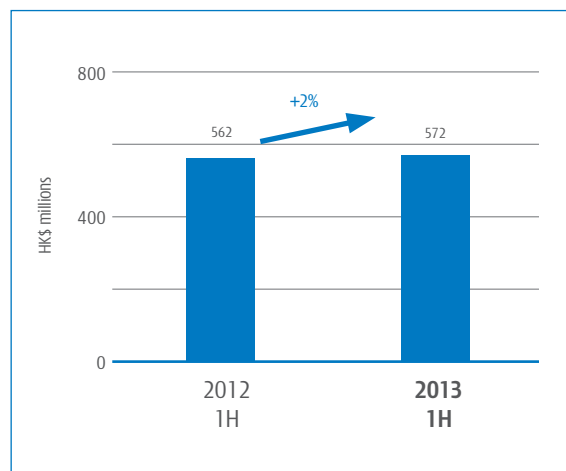
Consolidated turnover



Consolidated EBITDA and EBIT



Profit attributable to shareholders



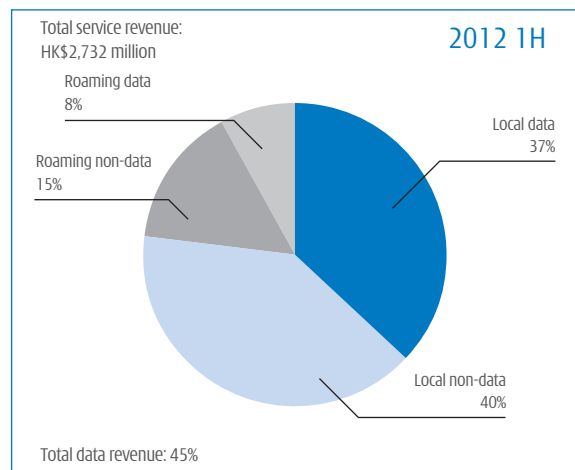
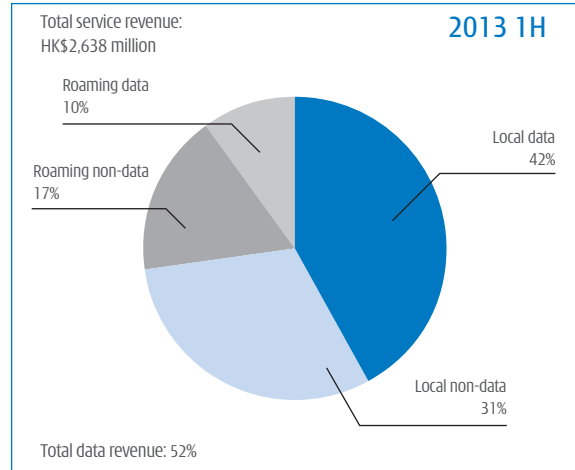
Business Review

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

Mobile business in Hong Kong and Macau

Turnover for the first six months of 2013 was HK\$4,452 million compared with HK\$5,241 million for the first half of 2012. This was the result of a 28% reduction in hardware revenue, as well as a shortfall in mobile service revenue under the non-subsidised handset business model⁽¹⁾. As data communications became more popular, overall data service revenue⁽²⁾ accounted for 52% of total mobile service revenue for the first half of 2013 compared to 45% for the same period in 2012.

Mobile service revenue

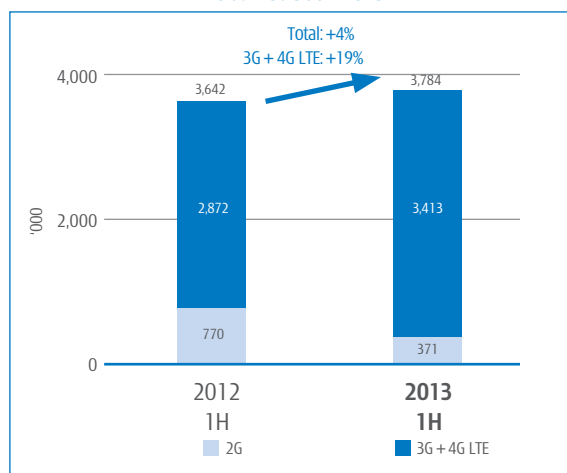


Notes:

- (1) Under the non-subsidised handset business model, customer spending includes a portion of customer contribution to handset, or other devices, in a bundled service and hardware plan and such a portion of customer contribution is deducted to arrive at mobile service revenue.
- (2) Data service revenue is defined as customer payment for internet and data access services, excluding messaging, content and related services.

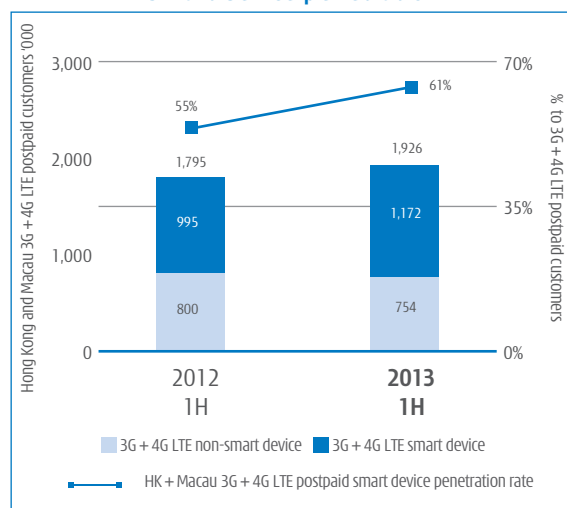
As of 30 June 2013, our Hong Kong and Macau customer base amounted to approximately 3.78 million. Postpaid 3G and 4G LTE customers accounted for 97% of our total postpaid customer base. The number of Hong Kong and Macau postpaid customers totalled approximately 1.99 million as of 30 June 2013.

Total customers

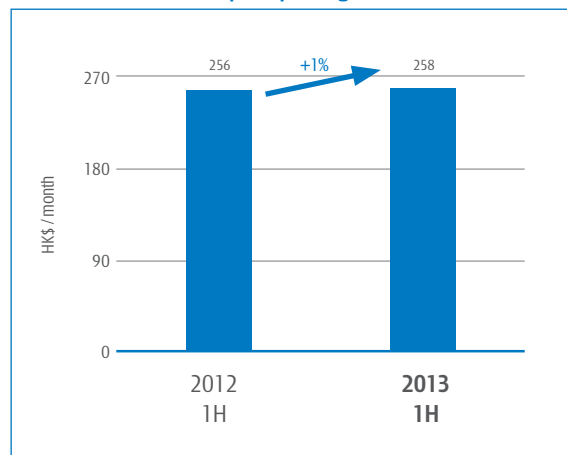


Adoption of smart devices continued, with smart device penetration of our 3G and 4G LTE postpaid customer base in Hong Kong and Macau increasing to 61% as of 30 June 2013 (30 June 2012: 55%). Blended postpaid gross ARPU⁽³⁾ for the first half of 2013 was HK\$258, compared with HK\$256 for the same period in 2012. Blended postpaid net ARPU⁽³⁾ for the first half of 2013 was HK\$208, compared to HK\$213 for the same period in 2012. The reduction in net ARPU for the period was mainly due to the transition to a non-subsidised handset business model as mentioned above.

Smart device penetration



Blended postpaid gross ARPU



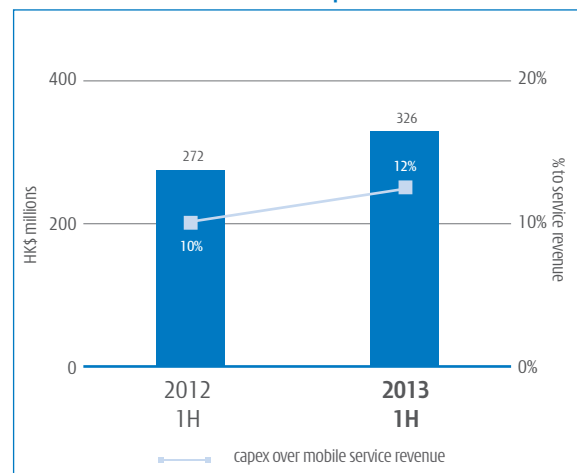
Note:

(3) 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.

Mobile business EBITDA was HK\$941 million for the first half of 2013, representing a 5% decrease compared with the first half of 2012, while the corresponding EBIT was HK\$650 million for the first half of 2013, representing a 3% decrease compared with that for the same period in 2012.

Capital expenditure on property, plant and equipment for the first six months of 2013 amounted to HK\$326 million, and represented 12% of mobile service revenue for the period, while capital expenditure for the first six months of 2012 was HK\$272 million, which represented 10% of mobile service revenue for the same period. The increase in capital expenditure was the result of continued network investment.

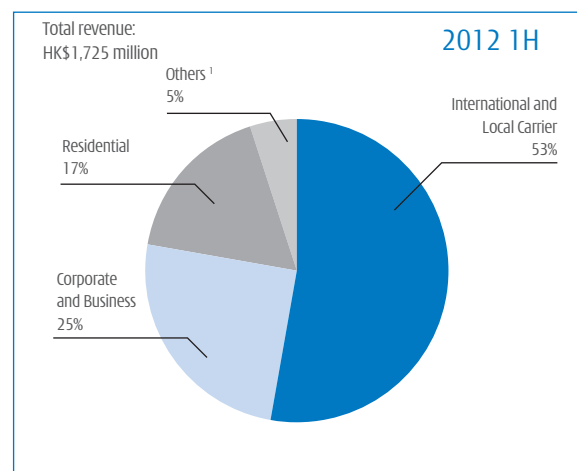
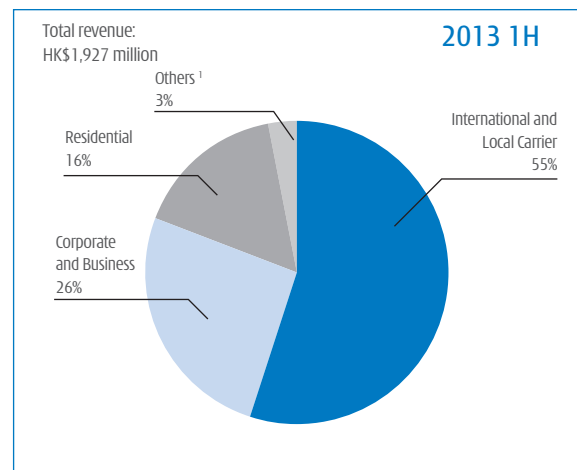
Mobile capex



Fixed-line business

Turnover showed a 12% increase, from HK\$1,725 million for the first half of 2012 to HK\$1,927 million for the same period in 2013. Our carrier market business benefited from extended global reach and scale of operation, and continued to account for the largest share of total fixed-line revenue. Revenue from the carrier market increased by 17% from HK\$909 million for the first half of 2012 to HK\$1,059 million for the same period in 2013. Revenue from the corporate and business market increased by 16%, from HK\$426 million for the first six months of 2012 to HK\$493 million for the same period in 2013, as a result of rising demand for our connectivity solutions. Revenue from the residential market grew from HK\$288 million for the first half of 2012 to HK\$301 million for the same period in 2013.

Fixed-line revenue



¹ Others include revenue from interconnection charges and data centres.

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EBITDA increased by 16% from HK\$510 million for the first half of 2012 to HK\$593 million for the same period in 2013. EBIT was HK\$233 million for the first six months of 2013, representing an increase of 28% compared with HK\$182 million for the same period in 2012.

Capital expenditure on property, plant and equipment amounted to HK\$236 million for the first half of 2013, representing 12% of fixed-line service revenue, compared with HK\$295 million and 17% of fixed-line service revenue respectively, for the same period in 2012.

Fixed-line capex

