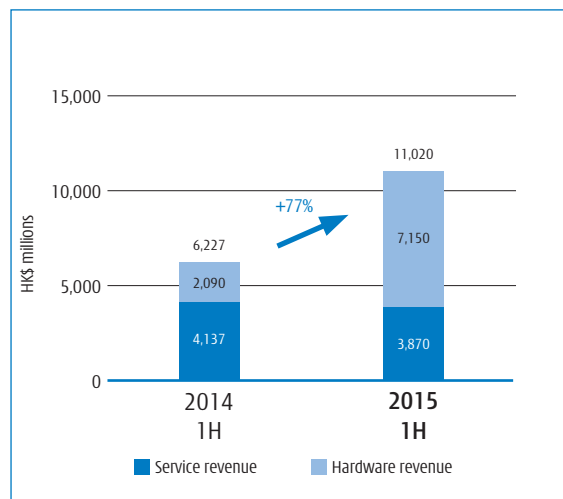


# Management Discussion and Analysis

## Financial Review

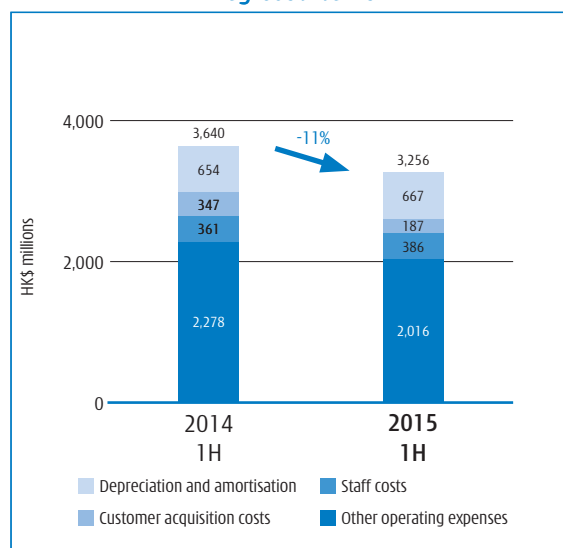
Consolidated turnover in the first half of 2015 was HK\$11,020 million, an increase of 77% compared with HK\$6,227 million in the first half of 2014. The increase was mainly due to an increase of 242% in hardware revenue from HK\$2,090 million in the first half of 2014 to HK\$7,150 million in the first half of 2015. Total service revenue in the first half of 2015 was HK\$3,870 million, a decrease of 6% compared with HK\$4,137 million in the first half of 2014, mainly due to the drop in mobile net customer service revenue of 11% as a result of decrease in mobile roaming revenue.

Consolidated turnover



Total operating expenses, excluding cost of inventories sold, amounted to HK\$3,256 million in the first half of 2015, a decrease of 11% compared with HK\$3,640 million in the first half of 2014, as a result of less promotional activities on customer acquisition as well as reduction in direct variable cost.

Key cost items



Consolidated EBITDA was HK\$1,456 million in the first half of 2015, an increase of 23% compared to HK\$1,181 million in the first half of 2014. Service EBITDA margin <sup>(1)</sup> increased from 28% in the first half of 2014 to 33% in the first half of 2015, mainly due to improved operating performance of the mobile and fixed-line businesses as well as operating efficiency management. Depreciation and amortisation amounted to HK\$667 million in the first half of 2015, an increase of 2% compared with the first half of 2014, which was in line with disciplined capital expenditure spending in recent years. Consolidated EBIT was HK\$789 million in the first half of 2015, an increase of 50% compared with that in the first half of 2014.

Interest and other finance costs decreased by 27% from HK\$82 million in the first half of 2014 to HK\$60 million in the first half of 2015 mainly as a result of favourable interest rate subsequent to the refinancing completed in December 2014 and improving cashflow from operating activities during the period which led to lower level of net debt in the first half of 2015. Gearing ratio as at 30 June 2015, calculated by dividing net debt by net total capital, was 19% (31 December 2014: 23%).

Share of losses of joint ventures in the first half of 2015 recorded at HK\$18 million compared with HK\$12 million in the first half of 2014, mainly due to an increase in related depreciation and amortisation costs for the newly opened data centre in March 2014.

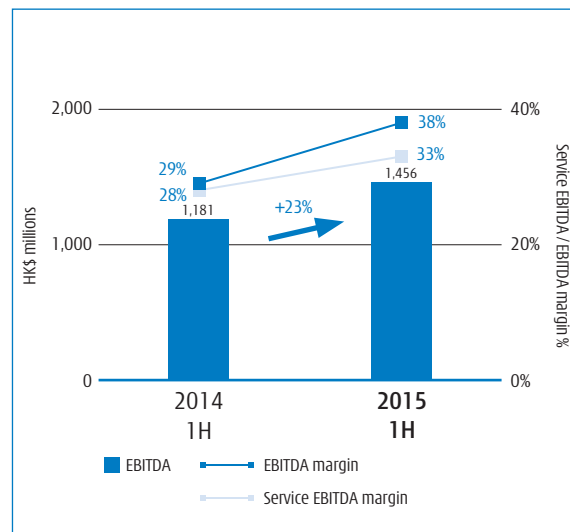
Taxation increased from HK\$82 million in the first half of 2014 to HK\$120 million in the first half of 2015, in line with the growth in profits before taxation.

Overall, profit attributable to shareholders of the Company in the first half of 2015 was HK\$508 million, an increase of 57% compared with HK\$323 million in the first half of 2014.

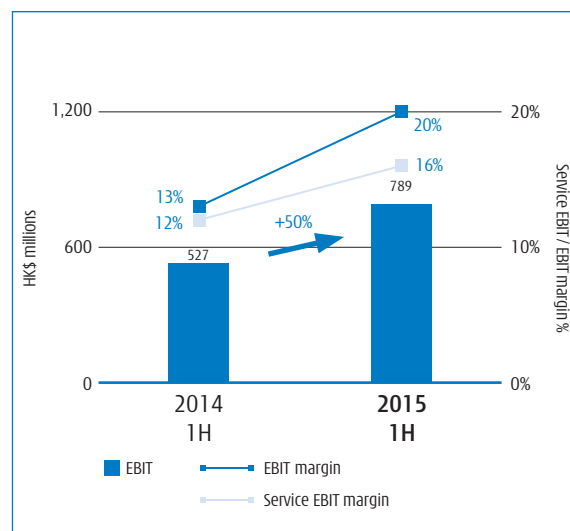
Note:

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

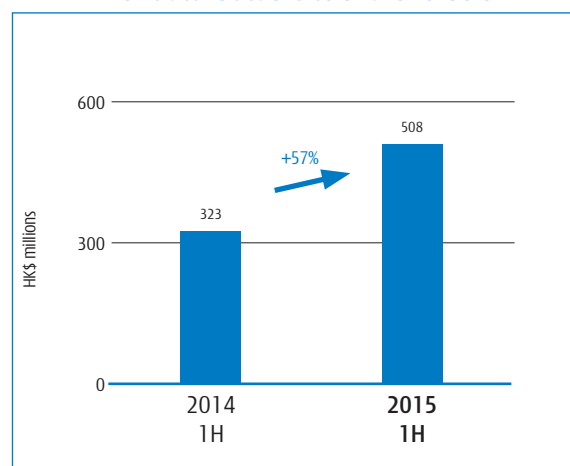
### Consolidated EBITDA



### 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 six months ended 30 June 2015 HK\$ millions	For the six months ended 30 June 2014 HK\$ millions	Favourable/ unfavourable change
Total revenue	9,242	4,438	+108%
- Net customer service revenue	2,092	2,348	-11%
- Hardware revenue	7,150	2,090	+242%
- Bundled sales revenue	416	381	+9%
- Standalone handset sales revenue	6,734	1,709	+294%
Net customer service revenue margin <sup>(2)</sup>	1,945	2,085	-7%
Net customer service revenue margin %	93%	89%	+4% points
Standalone handset sales revenue margin	175	30	+483%
Total CACs <sup>(3)</sup>	(548)	(665)	+18%
Less: Bundled sales revenue	416	381	+9%
Total CACs (net of handset revenue)	(132)	(284)	+54%
Operating expenses	(1,118)	(1,217)	+8%
Opex as a % of net customer service revenue margin	53%	52%	-1% point
EBITDA	870	614	+42%
Service EBITDA <sup>(4)</sup>	695	584	+19%
Service EBITDA Margin %	33%	25%	+8% points
Depreciation and amortisation	(318)	(306)	-4%
EBIT	552	308	+79%
CAPEX	(160)	(220)	+27%
EBITDA less CAPEX	710	394	+80%

**Notes:**

(2) Net customer service revenue 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 revenue margin.

Total revenue of the mobile business in the first half of 2015 was HK\$9,242 million, an increase of 108% compared with the first half of 2014. Hardware revenue grew by 242% to HK\$7,150 million in the first half of 2015 compared with that in the first half of 2014 as a result of increased standalone handset sales. Mobile net customer service revenue in the first half of 2015 was HK\$2,092 million, an 11% decline compared with HK\$2,348 million in the first half of 2014, mainly as a result of decrease in roaming revenue. The corresponding net customer service revenue margin percentage increased from 89% to 93% as a result of reduction in direct roaming costs. The net customer service revenue margin, after deducting the related customer acquisition costs, increased by 1% from HK\$1,801 million in the first half of 2014 to HK\$1,813 million in the first half of 2015. Excluding the roaming factors in both periods, adjusted local net customer service revenue margin increased by 5% from HK\$1,377 million in the first half of 2014 to HK\$1,444 million in the first half of 2015 as a result of better net ARPU and reduction in direct variable costs.

EBITDA was HK\$870 million in the first half of 2015, an increase of 42% compared with that in the first half of 2014. Corresponding EBIT was HK\$552 million in the first half of 2015, representing an increase of 79% compared with that in the first half of 2014. The increase was mainly due to increased mobile turnover, enhanced customer quality and continuous focus on operation efficiency following a planned strategy to focus on margin and profitability. Accordingly, service EBITDA margin improved from 25% in the first half of 2014 to 33% in the first half of 2015.

As at 30 June 2015, the Group was serving approximately 2.9 million customers (31 December 2014: 3.2 million) in Hong Kong and Macau. Postpaid customers totalled over 1.5 million (31 December 2014: 1.7 million), and represented 54% of the total customer base (31 December 2014: 51%), which accounted for 93% of net customer service revenue. The decrease in postpaid customer number narrowed in the first half of 2015 and it is expected to attract more quality customers going forward with the advanced network infrastructure. The churn rate of postpaid customers was 1.9% in the first half of 2015, which is comparable to 1.8% recorded in the first half of 2014.

As of 30 June 2015, 75% of 3G and 4G LTE postpaid customers in Hong Kong and Macau used data services (31 December 2014: 65%). Blended local postpaid net ARPU <sup>(5)</sup> in the first half of 2015 was HK\$158 compared with HK\$132 in the first half of 2014, reflecting increased data usage of customers and the market price recovery in the second half of 2014. Blended local postpaid net AMPU <sup>(6)</sup> in the first half of 2015 was HK\$151, compared with HK\$124 in the first half of 2014, following enhanced customer quality and disciplined control over direct variable costs.

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Notes:

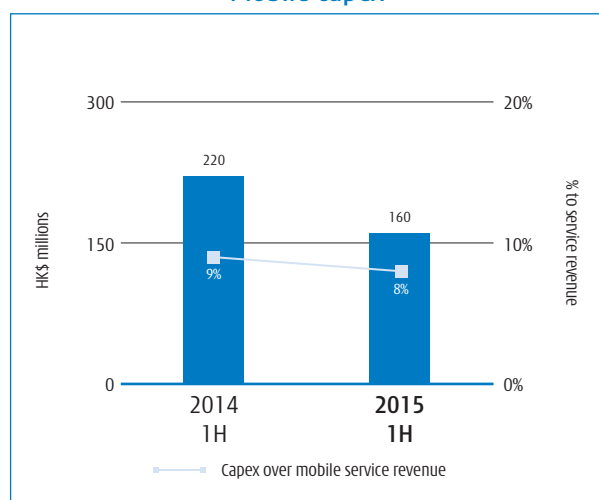
- (5) Local postpaid net ARPU is defined as monthly average spending per postpaid user excluding roaming revenue and a customer's contribution to handset, or other devices, in a bundled service and hardware plan as well as revenue and expenses related to handset under the non-subsidised handset business model in a 6-month period. Prior period figure has been adjusted to conform to current period presentation.
- (6) Local postpaid net AMPU represents average net margin per user. Local postpaid net AMPU equals local postpaid net ARPU less direct variable costs (including interconnection charges) in a 6-month period. Prior period figure has been adjusted to conform to current period presentation.

## Management Discussion and Analysis

	For the six months ended 30 June 2015	For the six months ended 30 June 2014	Favourable/ unfavourable change
Number of postpaid customers ('000)	1,542	1,836	-16%
Number of prepaid customers ('000)	1,327	1,752	-24%
Total customers ('000)	2,869	3,588	-20%
Postpaid customers to the total customer base (%)	54%	51%	+3% points
Postpaid customers' contribution to the net customer service revenue (%)	93%	94%	-1% point
Average monthly churn rate (%)	1.9%	1.8%	-0.1% point
Local postpaid gross ARPU <sup>(7)</sup> (HK\$)	209	194	+8%
Local postpaid net ARPU (HK\$)	158	132	+20%
Local postpaid net AMPU (HK\$)	151	124	+22%

Capital expenditure on property, plant and equipment in the first half of 2015 amounted to HK\$160 million (30 June 2014: HK\$220 million), accounting for 8% (30 June 2014: 9%) of mobile service revenue, reflecting a disciplined level of capital expenditure spending.

### Mobile capex



### Summary of spectrum investment (as of 30 June 2015)

Spectrum band	Bandwidth	Year of expiry
<b>Hong Kong</b>		
900 MHz	10 MHz	2026
900 MHz	16.6 MHz	2020
1800 MHz	23.2 MHz	2021
2100 MHz	34.6 MHz	2016 <sup>(8)</sup>
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	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 handset, or other devices, in a bundled service and hardware plan, excluding roaming revenue in 6-month period.

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

Fixed-line business highlights

	For the six months ended 30 June 2015 HK\$ millions	For the six months ended 30 June 2014 HK\$ millions	Favourable/ unfavourable change
Total revenue	1,984	2,013	-1%
Total CACs and Operating expenses	(1,328)	(1,382)	+4%
<i>Total CACs and Opex as % of revenue</i>	<i>67%</i>	<i>69%</i>	<i>+2% points</i>
EBITDA	656	631	+4%
<i>EBITDA margin %</i>	<i>33%</i>	<i>31%</i>	<i>+2% points</i>
Depreciation and amortisation	(349)	(348)	-
EBIT	307	283	+8%
CAPEX	(193)	(200)	+4%
EBITDA less CAPEX	463	431	+7%

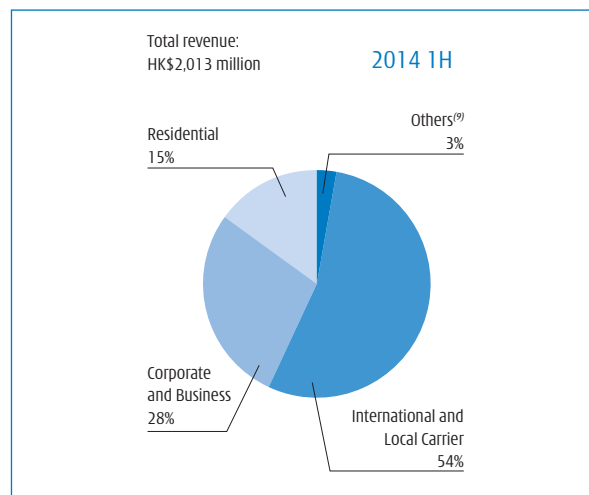
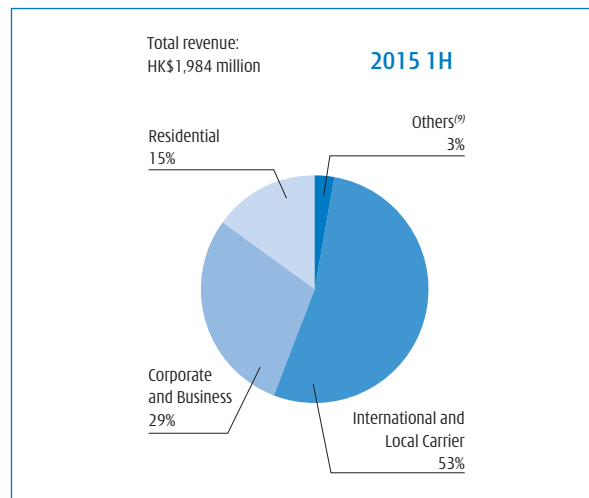
Total revenue was HK\$1,984 million in the first half of 2015, comparable to that in the first half of 2014. Revenue generated from the corporate and business market continued to be the key growth driver, reporting an increase of 4% to HK\$581 million in the first half of 2015. This was partially offset by a 2% decrease of revenue from the international and local carrier market to HK\$1,052 million, primarily due to the decreased revenue from international direct dialing and local backhaul leased line services. Revenue from the residential market was HK\$285 million in the first half of 2015, decreasing by 6% from HK\$302 million in the first half of 2014 as a result of competitive pricing in certain segments. Nevertheless, the Group will continue to focus on gaining customers with high data speed requirements.

EBITDA in the first half of 2015 amounted to HK\$656 million, representing an increase of 4% from HK\$631 million in the first half of 2014. EBITDA margin in the first half of 2015 was 33%, increased from 31% in the first half of 2014 as a result of continued focus on the provision of high margin solution based offerings as well as improved operational efficiency. EBIT in the first half of 2015 amounted to HK\$307 million, representing an increase of 8% compared with HK\$283 million in the first half of 2014.

Note:

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

Fixed-line revenue



# Management Discussion and Analysis

Capital expenditure on property, plant and equipment in the first half of 2015 amounted to HK\$193 million (30 June 2014: HK\$200 million), representing 10% (30 June 2014: 10%) of fixed-line service revenue which highlighted continued focus on network expansion and enhancement to support long-term business growth.

Fixed-line capex

