

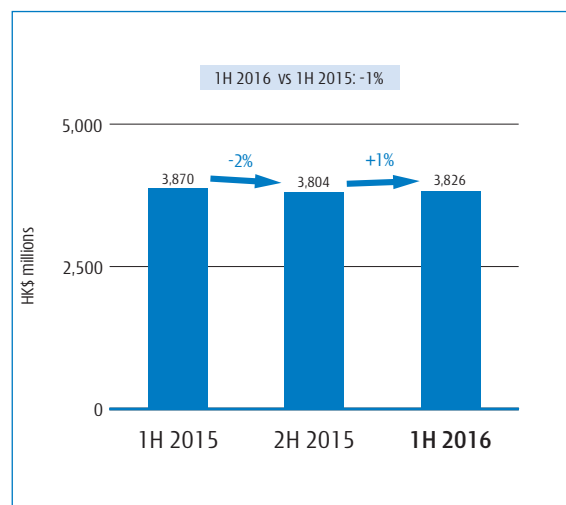
Management Discussion and Analysis

Financial Review

Consolidated service revenue for the first half of 2016 was HK\$3,826 million, a reduction of 1% compared with HK\$3,870 million in the first half of 2015. This was the result of a 6% decrease in mobile service revenue, partially offset by a 4% increase in fixed-line service revenue.

Compared with the second half of 2015, consolidated service revenue grew 1% as a result of improved fixed-line service revenue, partially offset by decrease in mobile roaming revenue.

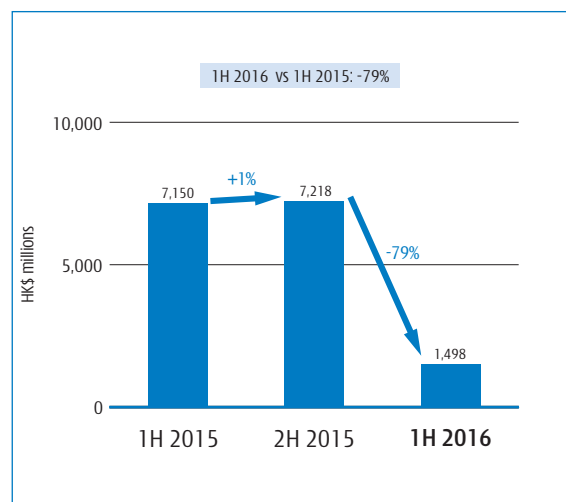
Consolidated service revenue



Consolidated hardware revenue was HK\$1,498 million in the first half of 2016, a decrease of 79% from HK\$7,150 million in the first half of 2015. This was resulted from the lack of popular smartphones being available in the market during the period.

Compared with the second half of 2015, consolidated hardware revenue recorded a decrease of 79% from HK\$7,218 million as a result of the above mentioned reason.

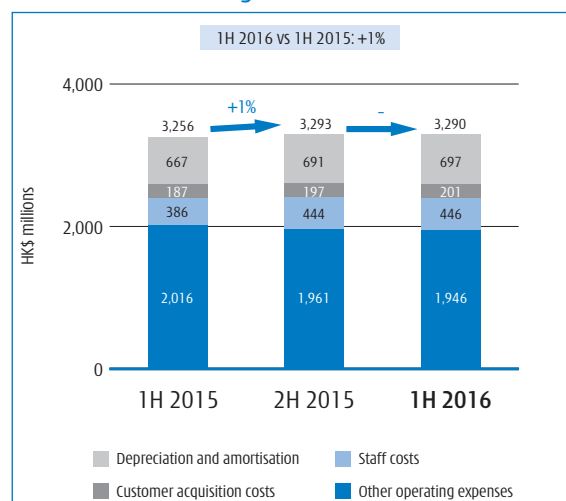
Consolidated hardware revenue



Total operating expenses, excluding cost of inventories sold, amounted to HK\$3,290 million for the first half of 2016, and were broadly in line with the first half of 2015 of HK\$3,256 million. This was because of continued focus on enhancing operational efficiency.

Compared with the second half of 2015, total operating expenses, excluding cost of inventories sold, were in line as a result of the above mentioned reason.

Key cost items



Consolidated service EBITDA for the first half of 2016 was HK\$1,233 million, a decrease of 4% compared with HK\$1,281 million for the first half of 2015. Service EBITDA margin percentage was 32% in the first half of 2016.

Depreciation and amortisation amounted to HK\$697 million in the first half of 2016 compared with HK\$667 million in the first half of 2015. This represented a slight increase resulting from enhancement of the 4G LTE network infrastructure of the Group.

Consolidated service EBIT was HK\$536 million for the first half of 2016, a decrease of 13% compared with the first half of 2015.

Compared with the second half of 2015, consolidated service EBITDA showed a HK\$31 million or 3% increase and consolidated service EBIT showed a HK\$25 million or 5% increase as a result of improvement to service operations as well as a sharp focus on operational efficiency.

Net interest and other finance costs amounted to HK\$49 million in the first half of 2016, representing a reduction of 4% and 6% compared with HK\$51 million in the first half of 2015 and HK\$52 million in the second half of 2015 respectively. The reduction was due to lower notional finance charge on decreasing licence fee liabilities. Gearing ratio as of 30 June 2016, calculated by dividing net debt by net total capital, was 18% (31 December 2015: 20%) as a result of lower net debt.

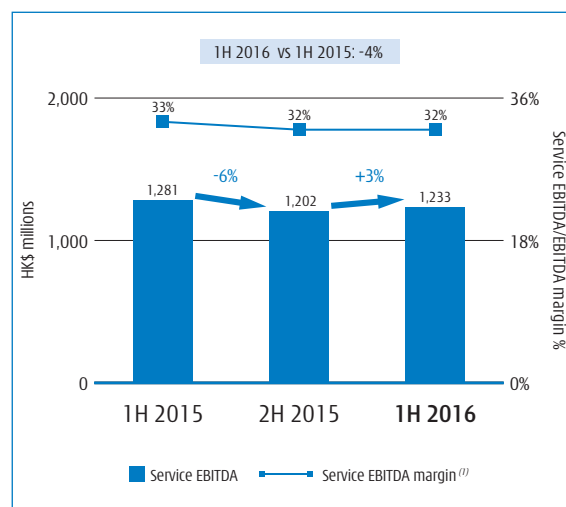
Share of losses of joint ventures in the first half of 2016 decreased to HK\$14 million compared with a HK\$18 million loss in the first half of 2015 and a HK\$16 million loss in the second half of 2015, during which the data centre business of the Group was under development.

Overall, profit attributable to shareholders of the Company for the first half of 2016 was HK\$376 million, a decrease of 26% compared with HK\$508 million in the first half of 2015 and a decrease of 8% compared with HK\$407 million for the second half of 2015.

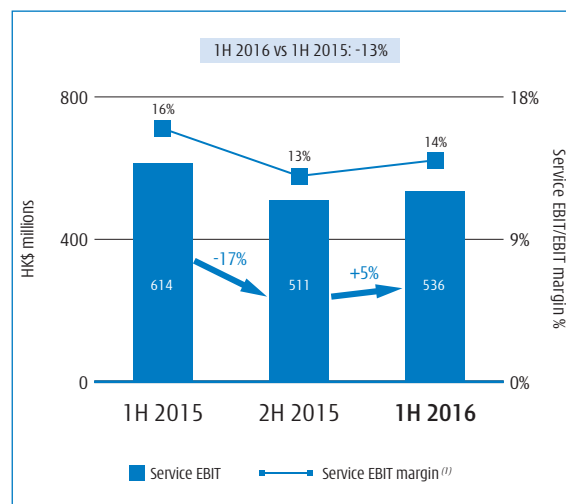
Note:

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

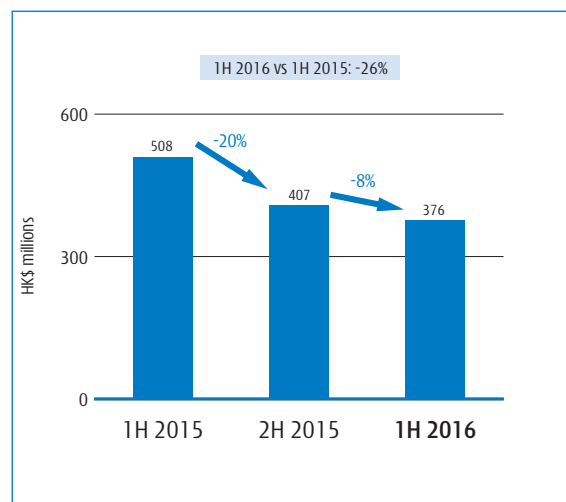
Consolidated service EBITDA



Consolidated service EBIT



Profit attributable to shareholders



Management Discussion and Analysis

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 2016 HK\$ millions	For the six months ended 31 December 2015 HK\$ millions	For the six months ended 30 June 2015 HK\$ millions	Favourable/ (unfavourable) change 1H 2016 vs 2H 2015	Favourable/ (unfavourable) change 1H 2016 vs 1H 2015
Total revenue	3,472	9,235	9,242	-62%	-62%
- Net customer service revenue	1,973	2,014	2,092	-2%	-6%
- Hardware revenue	1,499	7,221	7,150	-79%	-79%
- Bundled sales revenue	294	399	416	-26%	-29%
- Standalone handset sales revenue	1,205	6,822	6,734	-82%	-82%
Net customer service margin ⁽²⁾	1,829	1,878	1,945	-3%	-6%
Net customer service margin %	93%	93%	93%	-	-
Standalone handset sales margin	20	133	175	-85%	-89%
Total CACs ⁽³⁾	(443)	(537)	(548)	+18%	+19%
Less: Bundled sales revenue	294	399	416	-26%	-29%
Total CACs (net of handset revenue)	(149)	(138)	(132)	-8%	-13%
Operating expenses	(1,035)	(1,106)	(1,118)	+6%	+7%
Opex as a % of net customer service revenue	52%	55%	53%	-3% points	-1% point
EBITDA	665	767	870	-13%	-24%
Service EBITDA ⁽⁴⁾	645	634	695	+2%	-7%
Service EBITDA margin %	33%	31%	33%	+2% points	-
Depreciation and amortisation	(351)	(343)	(318)	-2%	-10%
EBIT	314	424	552	-26%	-43%
CAPEX (excluding licence)	(198)	(414)	(160)	+52%	-24%
EBITDA less CAPEX	467	353	710	+32%	-34%
Licence	(1)	(2)	(1)	+50%	-

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 revenue in the first half of 2016 was HK\$3,472 million, a decrease of 62% compared with HK\$9,242 million in the first half of 2015 mainly as a result of a lack of popular smartphones being available in the market during the period and thus the mobile hardware revenue recorded a significant decrease from HK\$7,150 million in the first half of 2015 to HK\$1,499 million in the first half of 2016. Mobile net customer service revenue in the first half of 2016 was HK\$1,973 million, a 6% decline compared with HK\$2,092 million in the first half of 2015 mainly as a result of a HK\$87 million or 19% decline in roaming revenue. Nevertheless, strenuous efforts to reduce direct roaming cost helped maintain the net customer service margin percentage at 93% in the first half of 2016. Excluding the roaming factor in both periods, local net customer service margin in the first half of 2016, after deducting direct variable cost, was in line with that of the first half of 2015. This was the result of better local postpaid net ARPU ⁽⁵⁾ with enhanced customer profile.

Compared with the second half of 2015, mobile business performance was adversely affected by a 79% drop in handset revenue, mobile service revenue decreased marginally by 2% mainly as a result of a milder HK\$22 million or 6% reduction in roaming revenue, while the net customer service margin percentage maintained at 93%. Excluding the roaming factor in both periods, local net customer service margin of the first half of 2016 was in line with that of the second half of 2015. Data usage increased during the period as a result of the launch of various infotainment content and related data plans, together with better customer acquisition achievements since the second half of 2015. Excluding the negative effect of hardware performance, service EBITDA improved HK\$11 million or 2%, while service EBIT was in line with that of the second half of 2015. Corresponding EBITDA margin percentage improved by 2% points from 31% in the second half of 2015, as a result of enhanced customer profile and improved operational efficiency.

As at 30 June 2016, the Group was serving approximately 3.1 million customers in Hong Kong and Macau (31 December 2015: 3.0 million), of which the number of postpaid customers was approximately 1.5 million (31 December 2015: 1.5 million). Churn among postpaid customers in Hong Kong and Macau in the first half of 2016 was substantially reduced to 1.3% (1H 2015: 1.9%; 2H 2015: 1.6%).

The launch of various infotainment content and related data plans led to positive customer response with acquisition of more data-centric customers, and blended local postpaid net ARPU for the first half of 2016 increased to HK\$168. This represented an increase of 6% compared with HK\$158 for the first half of 2015. Blended local postpaid net AMPU ⁽⁶⁾ improved 7% to HK\$161 compared with HK\$151 in the first half of 2015.

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.
- (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).

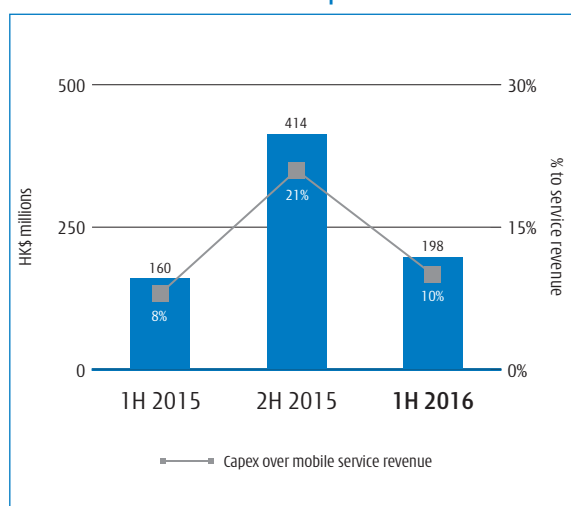
Management Discussion and Analysis

Key performance indicators for mobile business

	For the six months ended 30 June 2016	For the six months ended 31 December 2015	For the six months ended 30 June 2015	Favourable/ (unfavourable) change 1H 2016 vs 2H 2015	Favourable/ (unfavourable) change 1H 2016 vs 1H 2015
Number of postpaid customers ('000)	1,481	1,484	1,542	-	-4%
Number of prepaid customers ('000)	1,597	1,547	1,327	+3%	+20%
Total customers ('000)	3,078	3,031	2,869	+2%	+7%
Postpaid customers to the total customer base (%)	48%	49%	54%	-1% point	-6% points
Postpaid customers' contribution to the net customer service revenue (%)	93%	93%	93%	-	-
Monthly postpaid churn rate (%)	1.3%	1.6%	1.9%	+0.3% point	+0.6% point
Local postpaid gross ARPU ⁽⁷⁾ (HK\$)	212	214	209	-1%	+1%
Local postpaid net ARPU (HK\$)	168	165	158	+2%	+6%
Local postpaid net AMPU (HK\$)	161	157	151	+3%	+7%

Capital expenditure on property, plant and equipment in the first half 2016 amounted to HK\$198 million (1H 2015: HK\$160 million; 2H 2015: HK\$414 million), accounting for 10% (1H 2015: 8%; 2H 2015: 21%) of mobile service revenue.

Mobile capex



Summary of spectrum investment (as of 30 June 2016)

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.
- (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 six months ended 30 June 2016 HK\$ millions	For the six months ended 31 December 2015 HK\$ millions	For the six months ended 30 June 2015 HK\$ millions	Favourable/ (unfavourable) change 1H 2016 vs 2H 2015	Favourable/ (unfavourable) change 1H 2016 vs 1H 2015
Revenue	2,067	1,989	1,984	+4%	+4%
Total CACs and Operating expenses	(1,420)	(1,371)	(1,328)	-4%	-7%
<i>Total CACs and Opex as % of revenue</i>	<i>69%</i>	<i>69%</i>	<i>67%</i>	-	<i>-2% points</i>
EBITDA	647	618	656	+5%	-1%
<i>EBITDA margin %</i>	<i>31%</i>	<i>31%</i>	<i>33%</i>	-	<i>-2% points</i>
Depreciation and amortisation	(346)	(348)	(349)	+1%	+1%
EBIT	301	270	307	+11%	-2%
CAPEX (excluding licence)	(231)	(292)	(193)	+21%	-20%
EBITDA less CAPEX	416	326	463	+28%	-10%

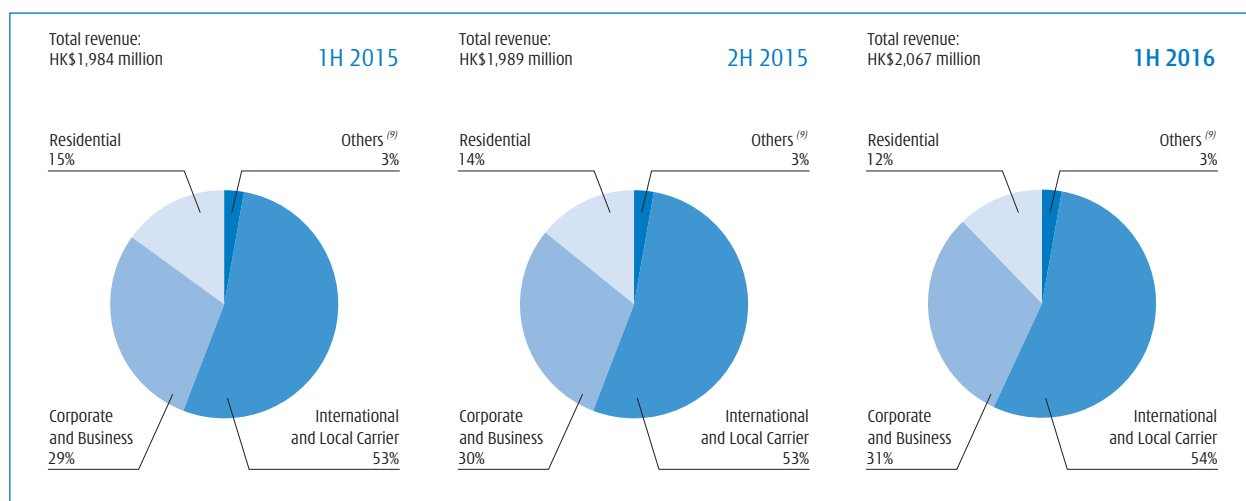
Fixed-line service revenue in the first half of 2016 was HK\$2,067 million, an increase of 4% compared with HK\$1,984 million in the first half of 2015. This improvement was mainly the result of increase in revenue from international and local carrier market driven by growing data demand from Over-the-Top ("OTT") applications and Internet-of-Things ("IoT") related devices. Another contributor was an increase in revenue from the corporate and business market after expansion into various market segments with sophisticated business solution requirements. This was partially offset by a decrease in residential market revenue resulting from a fiercely-competitive environment.

EBITDA and EBIT in the first half of 2016 were HK\$647 million and HK\$301 million respectively.

Management Discussion and Analysis

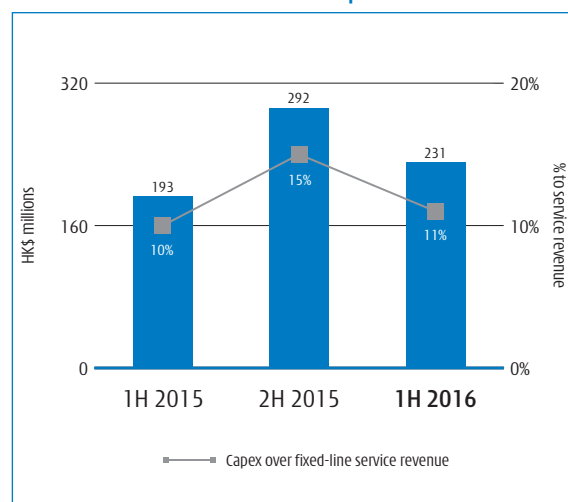
Compared with the second half of 2015, fixed-line service revenue increased by 4% mainly as a result of increased revenue recorded in the carrier market as well as the corporate and business market after further penetration into various market segments. EBITDA and EBIT improved by 5% and 11% respectively, compared with those of the second half of 2015. EBITDA margin percentage was maintained at 31%.

Fixed-line service revenue



Capital expenditure on property, plant and equipment in the first half of 2016 amounted to HK\$231 million (1H 2015: HK\$193 million; 2H 2015: HK\$292 million), representing 11% (1H 2015: 10%; 2H 2015: 15%) of fixed-line service revenue.

Fixed-line capex



Note:

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