

# Management Discussion and Analysis

## Financial Performance Summary - Pre-IFRS 16 basis <sup>(1)</sup>

	2020 HK\$ million	2019 HK\$ million	Change
<b>Revenue</b>	<b>4,545</b>	5,582	<b>-19%</b>
Net customer service revenue	3,285	3,613	-9%
• Local service revenue	2,917	2,875	+1%
• Roaming service revenue	368	738	-50%
- Data	238	517	-54%
- Non-data	130	221	-41%
Hardware revenue	1,260	1,969	-36%
• Bundled sales revenue	345	472	-27%
• Standalone handset sales revenue	915	1,497	-39%
<b>Net customer service margin</b>	<b>2,873</b>	3,266	<b>-12%</b>
<i>Net customer service margin %</i>	<i>87%</i>	<i>90%</i>	<i>-3% points</i>
Standalone handset sales margin	22	28	-21%
<b>Total margin</b>	<b>2,895</b>	3,294	<b>-12%</b>
CACs	(525)	(797)	+34%
Less: Bundled sales revenue	345	472	-27%
CACs (net of hardware revenue)	(180)	(325)	+45%
Operating expenses	(1,540)	(1,837)	+16%
<i>Operating expenses as a % of net customer service margin</i>	<i>54%</i>	<i>56%</i>	<i>+2% points</i>
Share of EBITDA of a joint venture	62	69	-10%
<b>EBITDA <sup>(2)</sup></b>	<b>1,237</b>	1,201	<b>+3%</b>
Service EBITDA <sup>(2)</sup>	1,215	1,173	+4%
<i>Service EBITDA <sup>(2)</sup> margin %</i>	<i>37%</i>	<i>32%</i>	<i>+5% points</i>
CAPEX (excluding telecommunications licences)	(593)	(503)	-18%
EBITDA <sup>(2)</sup> less CAPEX	644	698	-8%
Depreciation and amortisation <sup>(4)</sup>	(845)	(808)	-5%
<b>EBIT <sup>(3)</sup></b>	<b>392</b>	393	-
Service EBIT <sup>(3)</sup>	370	365	+1%
Net interest and other finance income <sup>(4)</sup>	63	147	-57%
<b>Profit before taxation</b>	<b>455</b>	540	<b>-16%</b>
Taxation <sup>(4)</sup>	(90)	(104)	+13%
Profit attributable to non-controlling interests	-	(8)	+100%
<b>Profit attributable to shareholders</b>	<b>365</b>	428	<b>-15%</b>

Financial Performance Summary - Post-IFRS 16 basis <sup>(1)</sup>

	2020 HK\$ million	2019 HK\$ million	Change
<b>Revenue</b>	<b>4,545</b>	5,582	<b>-19%</b>
Net customer service revenue	<b>3,285</b>	3,613	<b>-9%</b>
• Local service revenue	<b>2,917</b>	2,875	<b>+1%</b>
• Roaming service revenue	<b>368</b>	738	<b>-50%</b>
- Data	<b>238</b>	517	<b>-54%</b>
- Non-data	<b>130</b>	221	<b>-41%</b>
Hardware revenue	<b>1,260</b>	1,969	<b>-36%</b>
• Bundled sales revenue	<b>345</b>	472	<b>-27%</b>
• Standalone handset sales revenue	<b>915</b>	1,497	<b>-39%</b>
<b>Net customer service margin</b>	<b>2,873</b>	3,266	<b>-12%</b>
<i>Net customer service margin %</i>	<b>87%</b>	90%	<b>-3% points</b>
Standalone handset sales margin	<b>22</b>	28	<b>-21%</b>
<b>Total margin</b>	<b>2,895</b>	3,294	<b>-12%</b>
CACs	<b>(481)</b>	(744)	<b>+35%</b>
Less: Bundled sales revenue	<b>345</b>	472	<b>-27%</b>
CACs (net of hardware revenue)	<b>(136)</b>	(272)	<b>+50%</b>
Operating expenses	<b>(1,149)</b>	(1,429)	<b>+20%</b>
<i>Operating expenses as a % of net customer service margin</i>	<b>40%</b>	44%	<b>+4% points</b>
Share of EBITDA of a joint venture	<b>62</b>	69	<b>-10%</b>
<b>EBITDA <sup>(2)</sup></b>	<b>1,672</b>	1,662	<b>+1%</b>
Service EBITDA <sup>(2)</sup>	<b>1,650</b>	1,634	<b>+1%</b>
<i>Service EBITDA <sup>(2)</sup> margin %</i>	<b>50%</b>	45%	<b>+5% points</b>
CAPEX (excluding telecommunications licences)	<b>(593)</b>	(503)	<b>-18%</b>
EBITDA <sup>(2)</sup> less CAPEX	<b>1,079</b>	1,159	<b>-7%</b>
Depreciation and amortisation <sup>(4)</sup>	<b>(1,269)</b>	(1,253)	<b>-1%</b>
<b>EBIT <sup>(3)</sup></b>	<b>403</b>	409	<b>-1%</b>
Service EBIT <sup>(3)</sup>	<b>381</b>	381	<b>-</b>
Net interest and other finance income <sup>(4)</sup>	<b>47</b>	132	<b>-64%</b>
<b>Profit before taxation</b>	<b>450</b>	541	<b>-17%</b>
Taxation <sup>(4)</sup>	<b>(89)</b>	(104)	<b>+14%</b>
Profit attributable to non-controlling interests	<b>-</b>	(8)	<b>+100%</b>
<b>Profit attributable to shareholders</b>	<b>361</b>	429	<b>-16%</b>

## Management Discussion and Analysis

### Notes:

- (1) Following the adoption of IFRS 16 "Leases" on 1 January 2019, the Group's statutory results for the year ended 31 December 2019 and 31 December 2020 are on an IFRS 16 basis. The Group believes that the precedent lease accounting standard IAS 17 basis metrics, which are not intended to be a substitute for, or superior to, the reported metrics on an IFRS 16 basis ("Post-IFRS 16 basis"), better reflect management's view of the underlying operational performance. As a result, the Group has provided an alternative presentation of the Group's EBITDA, EBIT and profit attributable to shareholders prepared under IAS 17 ("Pre-IFRS 16 basis") relating to the accounting for leases for the year ended 31 December 2019 and 31 December 2020. Unless otherwise specified, the discussion of the Group's operating results in this Annual Report is on a Pre-IFRS 16 basis.
- (2) EBITDA represents the EBITDA of the Company and subsidiary companies as well as the Group's share of the EBITDA of a joint venture. EBITDA is defined as earnings before interest and other finance income, interest and other finance costs, taxation, depreciation and amortisation. Information concerning EBITDA has been included in the Group's financial information and is used by many industries and investors as one measure of gross cash flow generation. The Group considers EBITDA to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA is not a measure of cash liquidity or financial performance under IFRS and the EBITDA measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA should not necessarily be construed as an alternative to cash flows or results from operations as determined in accordance with IFRS.
- (3) EBIT represents the EBIT of the Company and subsidiary companies as well as the Group's share of the EBIT of a joint venture. EBIT is defined as earnings before interest and other finance income, interest and other finance costs and taxation. Information concerning EBIT has been included in the Group's financial information and is used by many industries and investors as one measure of results from operations. The Group considers EBIT to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBIT is not a measure of financial performance under IFRS and the EBIT measures used by the Group may not be comparable to other similarly titled measures of other companies. EBIT should not necessarily be construed as an alternative to results from operations as determined in accordance with IFRS.
- (4) Depreciation and amortisation, net interest and other finance income and taxation include the Group's share of joint venture's respective items.

## Review of Financial Results

The Group's total revenue, comprising service revenue and hardware revenue, decreased by 19% to HK\$4,545 million (2019: HK\$5,582 million).

Service revenue dropped by 9% to HK\$3,285 million (2019: HK\$3,613 million). The decline was mainly attributable to a 50% decrease in roaming service revenue as a result of the prolonged global travel restrictions. Roaming service revenue accounted for 11% (2019: 20%) of the Group's service revenue. Excluding the roaming impact, local service revenue grew 1% to HK\$2,917 million (2019: HK\$2,875 million). This was mainly driven by a surge in demand for corporate solutions as businesses shifted to new operating modes during the pandemic.

Hardware revenue decreased by 36% to HK\$1,260 million, reflecting the effect of the pandemic on consumer demand as well as the deferred launch and supply of new smartphones as a result of economic slowdown.

The Group continued to implement its cost efficiency enhancement initiatives aimed at streamlining and digitalising workflows. Key costs (Pre-IFRS 16 basis), which comprise CACs, staff costs and other operating expenses were decreased by 15% to HK\$2,132 million.

On a Pre-IFRS 16 basis, service EBITDA improved by 4% as cost efficiency enhancement initiatives were successfully employed to create a high-efficiency operational environment. Despite the negative impact on the travel restrictions enforced since the second quarter of 2020, the Group is pleased to report a 5%-point year-on-year growth on service EBITDA margin to 37% attributable to the improved cost structure. The Group's total EBITDA increased by 3% to HK\$1,237 million, while total EBIT stayed flat at HK\$392 million mainly due to the cost efficiency enhancement programme mentioned above offset by the effect of higher depreciation and amortisation subsequent to the launch of 5G network during the year.

On a Post-IFRS 16 basis, the Group's total EBITDA increased by 1% while total EBIT slightly decreased by 1% against last year. Profit attributable to shareholders and earnings per share both decreased by 16% to HK\$361 million and 7.49 HK cents respectively. The decrease was mainly due to lower interest income as the Group's cash balance significantly reduced from HK\$9,555 million at the beginning of 2019 to HK\$5,251 million as of 31 December 2020 after the distribution of HK\$3,855 million special interim dividend and cash settlement of HK\$471 million for the acquisition of a 24.1% interest in the mobile operation in May 2019. The general decrease in interest rate during the second half of the year further aggravated the decline in interest income. Excluding the effect of interest income reduction, profit attributable to shareholders increased by 4% against last year. The impact of IFRS 16 on total EBIT and profit attributable to shareholders of the Group was insignificant.

## Key Performance Indicators

	2020	2019	Change
Number of postpaid customers ('000)	1,427	1,475	-3%
Number of prepaid customers ('000)	1,852	2,180	-15%
Total customers ('000)	3,279	3,655	-10%
Postpaid customers to the total customer base (%)	44%	40%	+4% points
Postpaid customers' contribution to the net customer service revenue (%)	90%	87%	+3% points
Monthly churn rate of postpaid customers (%)	1.1%	1.2%	+0.1% point
Postpaid gross ARPU (HK\$)	196	205	-4%
Postpaid net ARPU (HK\$)	171	176	-3%
Postpaid net AMPU (HK\$)	150	161	-7%
Local postpaid gross ARPU (HK\$)	178	173	+3%
Local postpaid net ARPU (HK\$)	153	144	+6%

The total number of customers in Hong Kong and Macau was approximately 3.3 million as of 31 December 2020, compared with approximately 3.7 million as of 31 December 2019. The decrease was mainly driven by a higher disconnection of silent prepaid customers in Macau after the mandatory real-name registration policy was enforced in April 2020. Monthly postpaid churn rate slightly improved by 0.1%-point to 1.1%, mainly attributable to the Group's continuous customer retention efforts. Local postpaid net ARPU increased by 6% to HK\$153 mainly due to increased contributions from the corporate segment.

### Net Interest and Other Finance Income

Net interest and other finance income (Post-IFRS 16 basis, with share of a joint venture) amounted to HK\$47 million in 2020, compared with HK\$132 million in 2019. The decrease was mainly due to lower interest income as net cash balance was reduced from HK\$9,555 million at the beginning of 2019 to HK\$5,251 million as of 31 December 2020 after the distribution of HK\$3,855 million special interim dividend and cash settlement of HK\$471 million for the acquisition of a 24.1% interest in the mobile operation in May 2019. The general decrease in interest rate during the second half of the year further aggravated the decline in interest income.

The Group continues to maintain a healthy financial position. As of 31 December 2020, the Group's net cash position was HK\$5,251 million (as of 31 December 2019: HK\$5,416 million).

### Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 18% (2019: 14%) of the Group's service revenue, increased by 18% to HK\$593 million. This increase was mainly due to capital expenditure on developing the 5G network. While escalating expenditure in 5G network development is expected in the coming year, the Group continues to scrutinise its projects with care and prudence to ensure that resources are properly utilised.

### Summary of Spectrum Investment as of 31 December 2020

	Spectrum band	Bandwidth	Year of expiry
<b>Hong Kong</b>	900 MHz	10 MHz	2026
	900 MHz	16.6 MHz	2021 <sup>(1)</sup>
	1800 MHz	23.2 MHz	2021 <sup>(1)</sup>
	2100 MHz	29.6 MHz	2031
	2300 MHz	30 MHz	2027
	2600 MHz	30 MHz <sup>(2)</sup>	2024
	2600 MHz	10 MHz <sup>(2)</sup>	2028
	3300 MHz	30 MHz	2034
	3500 MHz	40 MHz	2035
<b>Macau</b>	900 MHz	10 MHz	2023
	1800 MHz	20 MHz	2023
	2100 MHz	10 MHz	2023

Notes:

(1) After the spectrum auction and licence renewal in 2018, the licence period of the existing 16.6 MHz in the 900 MHz band was extended from November 2020 to January 2021 to align with the new spectrum assignment period. Subsequently, the Group will hold 10 MHz in the 900 MHz band and 30 MHz in the 1800 MHz band from 2021 to 2036.

(2) The spectrum band was shared under 50/50 joint venture - Genius Brand Limited.