

Management Discussion and Analysis

Financial Performance Summary

	2021 HK\$ million	2020 HK\$ million	Change
Revenue	5,385	4,545	+18%
Net customer service revenue	3,241	3,285	-1%
• Local service revenue	2,980	2,917	+2%
• Roaming service revenue	261	368	-29%
- Data	179	238	-25%
- Non-data	82	130	-37%
Hardware and other product revenue	2,144	1,260	+70%
• Bundled sales revenue	395	345	+14%
• Standalone sales revenue	1,749	915	+91%
Net customer service margin	2,817	2,873	-2%
<i>Net customer service margin %</i>	87%	87%	-
Standalone hardware and other product sales margin	62	22	+182%
Total margin	2,879	2,895	-1%
- CACS	(529)	(481)	-10%
- Less: Bundled sales revenue	395	345	+14%
CACS (net of hardware and other product revenue)	(134)	(136)	+1%
Operating expenses	(1,325)	(1,149)	-15%
<i>Operating expenses as a % of net customer service margin</i>	47%	40%	-7% points
Share of EBITDA of a joint venture	57	62	-8%
EBITDA ⁽¹⁾	1,477	1,672	-12%
Service EBITDA ⁽¹⁾	1,415	1,650	-14%
<i>Service EBITDA ⁽¹⁾ margin %</i>	44%	50%	-6% points
CAPEX (excluding telecommunications licences)	(874)	(593)	-47%
EBITDA ⁽¹⁾ less CAPEX	603	1,079	-44%
Depreciation and amortisation ⁽³⁾	(1,345)	(1,269)	-6%
EBIT ⁽²⁾	132	403	-67%
Service EBIT ⁽²⁾	70	381	-82%
Net interest and other finance (costs)/income ⁽³⁾	(40)	47	-185%
Profit before taxation	92	450	-80%
Taxation ⁽³⁾	(88)	(89)	+1%
Profit attributable to shareholders	4	361	-99%

Notes:

- (1) 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 net interest and other finance (costs)/income, 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.
- (2) 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 net interest and other finance (costs)/income 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.
- (3) Depreciation and amortisation, net interest and other finance (costs)/income and taxation include the Group's share of joint venture's respective items.

Review of Financial Results

Revenue of the Group, including service revenue and hardware and other product revenue, increased 18% to HK\$5,385 million (2020: HK\$4,545 million).

Service revenue declined by 1% to HK\$3,241 million (2020: HK\$3,285 million), attributable to a HK\$107 million or a 29% drop in roaming revenue due to the full year impact of continuous travel restrictions that had been in place since the second quarter of 2020. Excluding the impact on roaming business, local service revenue increased by 2% to HK\$2,980 million (2020: HK\$2,917 million). This was mainly driven by a 35% increase in revenue from corporate solutions as a result of accelerated digital transformation during the pandemic.

Hardware and other product revenue increased by HK\$884 million or 70% to HK\$2,144 million, mainly due to delay in the launch and supply schedule of new smartphones in 2020.

Operating costs, which comprise CACs, staff costs and other operating expenses, increased by HK\$186 million or 11% to HK\$1,883 million (2020: HK\$1,697 million). The increase was primarily the result of higher network costs associated with the Group's investment in advanced 5G technology and its network coverage expansion, but was partly offset by the improved structural cost base as driven by the reduced own-store presence following its collaboration with the retail chain of the A.S. Watson group of companies, combined with the cost efficiency enhancement initiatives implemented in 2020.

EBITDA decreased by HK\$195 million or 12% to HK\$1,477 million mainly due to the factors mentioned above. EBIT decreased by HK\$271 million or 67% compared to last year to HK\$132 million. The decrease was mainly due to a 6% increase in depreciation and amortisation resulting from investments in expanding the network coverage and launch of 5G network during 2020, along with the renewal of existing spectrums with higher spectrum utilisation fees.

Profit attributable to shareholders and earnings per share both decreased by 99%, to HK\$4 million and 0.08 HK cents respectively. The decrease was mainly due to the aforementioned factors affecting EBITDA and EBIT, as well as the lower interest income as both the bank deposit rate and the Group's cash and bank balances decreased. The cash and bank balances of the Group decreased from HK\$5,416 million at the beginning of 2020 to HK\$3,975 million as of 31 December 2021, following the distribution of a special interim dividend of HK\$954 million in September 2021.

Key Performance Indicators

	2021	2020	Change
Number of postpaid customers ('000)	1,442	1,427	+1%
Number of prepaid customers ('000)	1,760	1,852	-5%
Total customers ('000)	3,202	3,279	-2%
Postpaid customers to total customer base (%)	45%	44%	+1% point
Postpaid customers' contribution to net customer service revenue (%)	90%	90%	-
Monthly churn rate of postpaid customers (%)	1.2%	1.1%	-0.1% point
Postpaid gross ARPU (HK\$)	192	196	-2%
Postpaid net ARPU (HK\$)	171	171	-
Postpaid net AMPU (HK\$)	148	150	-1%
Local postpaid gross ARPU (HK\$)	180	178	+1%
Local postpaid net ARPU (HK\$)	159	153	+4%

As of 31 December 2021, the Group had approximately 3.2 million total customers in Hong Kong and Macau, compared with approximately 3.3 million as of 31 December 2020. This slight decrease was primarily due to the full year impact of the mandatory real-name registration requirement in Macau for prepaid customers which was enacted in April 2020. Such decrease was in turn partly offset by the newly-acquired prepaid customers after the launch of SoSIM in November 2020 in Hong Kong. Although the termination of 2G network services had led to a slight increase in churn, the monthly postpaid churn rate remained healthy at 1.2%. The net ARPU for local postpaid services increased by 4% to HK\$159, primarily due to higher contributions from the corporate segment and customers upgrade to 5G services.

Net Interest and Other Finance Costs

Net interest and other finance costs (including share of a joint venture) were HK\$40 million in 2021, compared with a net income of HK\$47 million in 2020. The decrease was primarily a result of significant drop in bank deposit rates from an average of 1.72% in 2020 to an average of 0.31% in 2021, along with a reduction in cash and bank balances from HK\$5,416 million at the beginning of 2020 to HK\$3,975 million as of 31 December 2021 following the distribution of a special interim dividend of HK\$954 million in September 2021 and the settlement of 5G investment and spectrum spending.

The Group continues to maintain a healthy financial position. As of 31 December 2021, the cash and bank balances of the Group were HK\$3,975 million (as of 31 December 2020: HK\$5,251 million).

Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 27% (2020: 18%) of the Group's service revenue, increased by 47% to HK\$874 million. This increase was mainly due to capital investments in 5G infrastructure during the year. The Group continues to scrutinise its projects with care and prudence to ensure that resources are properly utilised to meet operational and technological demands.

Summary of Spectrum Investment as of 31 December 2021

	Spectrum band	Bandwidth	Year of expiry
Hong Kong	900 MHz	10 MHz	2026
	900 MHz	10 MHz	2036
	1800 MHz	30 MHz	2036
	2100 MHz	29.6 MHz	2031
	2300 MHz	30 MHz	2027
	2600 MHz	30 MHz ⁽¹⁾	2024
	2600 MHz	10 MHz ⁽¹⁾	2028
	3300 MHz	30 MHz	2034
	3500 MHz	40 MHz	2035
Macau	900 MHz	10 MHz	2023
	1800 MHz	20 MHz	2023
	2100 MHz	10 MHz	2023

Note:

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