

Management Discussion and Analysis

Financial Performance Summary

	2022 HK\$ million	2021 HK\$ million	Change
Revenue	4,882	5,385	-9%
Net customer service revenue	3,278	3,241	+1%
• Local service revenue	2,981	2,980	-
• Roaming service revenue	297	261	+14%
Hardware and other product revenue	1,604	2,144	-25%
Net customer service margin	2,827	2,817	-
<i>Net customer service margin %</i>	86%	87%	-1% point
Standalone hardware and other product sales margin	33	62	-47%
Total margin	2,860	2,879	-1%
- CACS	(518)	(529)	+2%
- Less: Bundled sales revenue	376	395	-5%
CACS (net of hardware and other product revenue)	(142)	(134)	-6%
Operating expenses	(1,356)	(1,325)	-2%
<i>Operating expenses as a % of net customer service margin</i>	48%	47%	-1% point
Share of EBITDA of a joint venture	58	57	+2%
EBITDA⁽¹⁾	1,420	1,477	-4%
Service EBITDA ⁽¹⁾	1,387	1,415	-2%
<i>Service EBITDA⁽¹⁾ margin %</i>	42%	44%	-2% points
CAPEX (excluding telecommunications licences)	(496)	(874)	+43%
EBITDA ⁽¹⁾ less CAPEX	924	603	+53%
Depreciation and amortisation ⁽³⁾	(1,501)	(1,345)	-12%
(LBIT)/EBIT⁽²⁾	(81)	132	-161%
Service (LBIT)/EBIT ⁽²⁾	(114)	70	-263%
Net interest and other finance costs ⁽³⁾	(22)	(40)	+45%
(Loss)/profit before taxation	(103)	92	-212%
Taxation ⁽³⁾	(55)	(88)	+38%
(Loss)/profit attributable to shareholders	(158)	4	-4050%

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, 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) (LBIT)/EBIT represents the (LBIT)/EBIT of the Company and subsidiary companies as well as the Group's share of the EBIT of a joint venture. (LBIT)/EBIT is defined as losses or earnings before net interest and other finance costs and taxation. Information concerning (LBIT)/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 (LBIT)/EBIT to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. (LBIT)/EBIT is not a measure of financial performance under IFRS and the (LBIT)/EBIT measures used by the Group may not be comparable to other similarly titled measures of other companies. (LBIT)/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 and taxation include the Group's share of joint venture's respective items.

Review of Financial Results

Service revenue increased by HK\$37 million or 1% to HK\$3,278 million (2021: HK\$3,241 million) during 2022 mainly due to a 14% rebound in roaming service revenue as containment measures and travel restrictions eased gradually. Local service revenue remained resilient and was largely in line with last year. With the market condition and pressure from competition stabilising in the second half of 2022, local service revenue reported an encouraging 10% improvement against the first half and a 6% growth against the same period last year.

Hardware and other product revenue decreased by HK\$540 million or 25% to HK\$1,604 million, mainly due to supply chain constraints.

As a result, total revenue of the Group decreased by HK\$503 million or 9% to HK\$4,882 million for 2022 (2021: HK\$5,385 million).

Operating expenses increased by HK\$31 million or 2% to HK\$1,356 million (2021: HK\$1,325 million). The increase was mainly attributable to higher network operating costs for the expansion and enhancement of 5G network coverage.

EBITDA decreased by HK\$57 million or 4% to HK\$1,420 million (2021: HK\$1,477 million), mainly due to the aforementioned lower hardware and other product revenue and higher network operating costs.

Depreciation and amortisation increased by HK\$156 million or 12% to HK\$1,501 million (2021: HK\$1,345 million). This increase mainly reflected the full year impact of amortisation for the spectrum licence which was renewed at a higher spectrum utilisation fee in 2021, higher amortisation as the 700 MHz spectrum band was activated during the year, as well as higher depreciation for the Group's investments in network infrastructure and related-technologies.

LBIT of HK\$81 million (2021: EBIT of HK\$132 million) shifted downward by HK\$213 million or 161% compared with last year, mainly due to the factors that impacted EBITDA as well as higher depreciation and amortisation as mentioned above, which in total accounted for HK\$199 million of the downward movement in LBIT.

Loss attributable to shareholders and loss per share reported at HK\$158 million (2021: profit of HK\$4 million) and 3.28 HK cents (2021: earnings of 0.08 HK cents) respectively. The decrease was mainly due to the aforementioned factors affecting EBITDA and LBIT.

Key Performance Indicators

	2022	2021	Change
Number of postpaid customers ('000)	1,470	1,442	+2%
Number of prepaid customers ('000)	1,808	1,760	+3%
Total customers ('000)	3,278	3,202	+2%
Postpaid customers to total customer base (%)	45%	45%	-
Postpaid customers' contribution to net customer service revenue (%)	90%	90%	-
Monthly churn rate of postpaid customers (%)	0.8%	1.2%	+0.4% point
Postpaid gross ARPU (HK\$)	185	192	-4%
Postpaid net ARPU (HK\$)	168	171	-2%
Postpaid net AMPU (HK\$)	145	148	-2%

As of 31 December 2022, the Group's total number of customers in Hong Kong and Macau was approximately 3.3 million, a slight increase compared approximately 3.2 million last year. This increase was largely due to growth in prepaid customers and 5G postpaid subscriptions.

Postpaid customer monthly churn rate improved significantly from 1.2% last year to a low 0.8% level due to the Group's network improvement as well as its continuous delivery of effective customer retention strategies, boosting customer engagement and loyalty.

Postpaid net ARPU decreased by 2% to HK\$168 compared with last year, mainly driven by the pressure from competition and unfavourable economic conditions during the first half of 2022. However, with recovery continuing to pick up, the Group rendered an encouraging improvement in postpaid net ARPU in the second half of 2022 compared with the first half.

Net Interest and Other Finance Costs

Net interest and other finance costs (with share of a joint venture) were HK\$22 million in 2022 (2021: HK\$40 million). The reduction was primarily due to higher bank interest income as the deposit interest rate grew from an average of 0.31% in 2021 to an average of 1.43% in 2022, partly offset by higher interest accretion from spectrum utilisation fee.

The Group maintained a robust financial position with cash and bank balances of HK\$3,700 million as of 31 December 2022 (31 December 2021: HK\$3,975 million). The movement in cash and bank balances was mainly due to the settlement of the 2021 final dividend and the 2022 interim dividend.

Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 15% (2021: 27%) of the service revenue of the Group, decreased by 43% to HK\$496 million. This significant decrease reflected that the capital expenditure on 5G network infrastructure development has peaked. Nevertheless, the Group will continue to vigorously examine the capital expenditure of its projects with care and discretion to ensure that resources are adequately utilised to fulfil operational and technological demands to meet or exceed customers' expectations.

Summary of Spectrum Investment as of 31 December 2022

	Spectrum band	Bandwidth	Year of expiry
Hong Kong	700 MHz	20 MHz	2037
	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⁾⁽²⁾	2024 ⁽²⁾
	2600 MHz	10 MHz ⁽¹⁾	2028
	3300 MHz	30 MHz	2034
	3500 MHz	40 MHz	2035
Macau	900 MHz	10 MHz	2025
	1800 MHz	20 MHz	2028
	2100 MHz	10 MHz	2025

Notes:

- (1) The spectrum band was shared under a 50/50 joint venture - Genius Brand Limited.
- (2) A subsidiary of the Group successfully bid 10 MHz at the 2600 MHz spectrum band in 2021 for a 15-year period to 2039, commencing immediately upon the expiry of the existing licence held by the joint venture in March 2024.