

# Management Discussion and Analysis

## Financial Performance Summary

	2023 HK\$ million	2022 HK\$ million	Change
<b>Revenue</b>	<b>4,896</b>	4,882	-
Net customer service revenue	3,531	3,278	+8%
• Local service revenue	3,005	2,981	+1%
• Roaming service revenue	526	297	+77%
Hardware and other product revenue	1,365	1,604	-15%
<b>Net customer service margin</b>	<b>3,046</b>	2,827	+8%
<i>Net customer service margin %</i>	<i>86%</i>	86%	-
Standalone hardware and other product sales margin	25	33	-24%
<b>Total margin</b>	<b>3,071</b>	2,860	+7%
- CACS	(482)	(518)	+7%
- Less: Bundled sales revenue	312	376	-17%
CACS (net of hardware and other product revenue)	(170)	(142)	-20%
Operating expenses	(1,506)	(1,356)	-11%
<i>Operating expenses as a % of net customer service margin</i>	<i>49%</i>	48%	-1% point
Share of EBITDA of a joint venture	62	58	+7%
<b>EBITDA <sup>(1)</sup></b>	<b>1,457</b>	1,420	+3%
Service EBITDA <sup>(1)</sup>	1,432	1,387	+3%
<i>Service EBITDA <sup>(1)</sup> margin %</i>	<i>41%</i>	42%	-1% point
CAPEX (excluding telecommunications licences)	(481)	(496)	+3%
EBITDA <sup>(1)</sup> less CAPEX	976	924	+6%
Depreciation and amortisation <sup>(3)</sup>	(1,526)	(1,501)	-2%
<b>LBIT <sup>(2)</sup></b>	<b>(69)</b>	(81)	+15%
Service LBIT <sup>(2)</sup>	(94)	(114)	+18%
Net interest and other finance income/(costs) <sup>(3)</sup>	101	(22)	+559%
<b>Profit/(loss) before taxation</b>	<b>32</b>	(103)	+131%
Taxation <sup>(3)</sup>	(84)	(55)	-53%
<b>Loss attributable to shareholders</b>	<b>(52)</b>	(158)	+67%

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

## Review of Financial Results

The Group's service revenue was HK\$3,531 million, up 8% year-on-year (2022: HK\$3,278 million), underpinned by a solid performance in roaming service segment. Roaming service revenue serving as the key revenue growth driver for 2023 gained further momentum on the back of tourism recovery and surged by HK\$229 million or 77% year-on-year to HK\$526 million. Local service revenue, on the other hand, marginally increased by 1% to HK\$3,005 million compared to last year. The Group's total revenue maintained at HK\$4,896 million, as the aforesaid increment was substantially offset by the decrease in low-margin hardware revenue due to weaker demand and prudent market sentiment. Total margin increased by HK\$211 million or 7% year-on-year to HK\$3,071 million, mainly driven by revenue mix with an increase in high-margin service revenue.

Operating expenses increased by HK\$150 million or 11% to HK\$1,506 million (2022: HK\$1,356 million), mainly attributable to higher network operating costs arising from the network expansion and enhancement projects invested by the Group.

EBITDA was up by HK\$37 million or 3% to HK\$1,457 million, largely driven by the improvement in total margin, partially offset by higher operating expenses involved as aforesaid.

LBIT improved considerably by HK\$12 million or 15% to HK\$69 million compared to last year. The improvement in EBITDA was partially offset by higher amortisation expenses associated with capitalised CACs and higher depreciation expenses incurred in network expansion. Against the backdrop of interest rate hikes, the Group's net interest income was HK\$101 million in 2023 compared to a net interest cost of HK\$22 million last year due to a three-fold increase in bank interest income resulting from a surge in deposit interest rate.

The Group's loss attributable to shareholders and loss per share considerably narrowed to HK\$52 million (2022: HK\$158 million) and 1.08 HK cents (2022: 3.28 HK cents) respectively, a 67% improvement compared to last year. The Group continued to witness a more positive financial performance in the second half of 2023, primarily driven by the encouraging financial results delivered by the Group's Hong Kong business in 2023.

## Key Performance Indicators

	2023	2022	Change
Number of postpaid customers ('000)	1,463	1,470	-
Number of prepaid customers ('000)	2,500	1,808	+38%
Total customers ('000)	3,963	3,278	+21%
Postpaid customers to total customer base (%)	37%	45%	-8% points
Postpaid customers' contribution to net customer service revenue (%)	86%	90%	-4% points
Monthly churn rate of postpaid customers (%)	1.0%	0.8%	-0.2% point
Postpaid gross ARPU (HK\$)	190	185	+3%
Postpaid net ARPU (HK\$)	174	168	+4%
Postpaid net AMPU (HK\$)	152	145	+5%

The Group's total number of customers in Hong Kong and Macau further increased to approximately 4.0 million as of 31 December 2023, compared to last year which was approximately 3.3 million. This increment was mainly driven by a notable increase in prepaid customers. With growing customer subscription of 5G services, the Group's 5G penetration rate has sustained a positive growth, witnessing an increase of 16% points to 46% compared to last year. This growth was underpinned by the continued expansion of the Group's customer base in terms of 5G broadband and other 5G customers. With the Group's customer value management initiatives and retention programmes, the postpaid customer monthly churn rate increased slightly to 1.0% (2022: 0.8%), mainly arising from a post-pandemic reduction in work-from-home arrangements from the Group's corporate customers, which only had a minimal impact on the Group's profitability. Postpaid net ARPU increased by 4% to HK\$174, primarily driven by higher revenue from roaming services.

## Net Interest and Other Finance Income

Net interest and other finance income (with share of a joint venture) was HK\$101 million in 2023 (2022: net costs of HK\$22 million). The improvement was primarily due to a three-fold increase in bank interest income resulting from a surge in deposit interest rate from an average of 1.43% in 2022 to an average of 4.85% in 2023.

The Group continues to maintain a healthy financial position with cash and bank balances of HK\$3,684 million as of 31 December 2023 (31 December 2022: HK\$3,700 million).

## Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 14% (2022: 15%) of the service revenue of the Group, reduced by 3% to HK\$481 million. The Group continues to examine its projects with care and discretion to ensure that resources are adequately utilised to comply with operational and technological demands.

## Summary of Spectrum Investment as of 31 December 2023

	Spectrum band	Bandwidth	Year of expiry
<b>Hong Kong</b>	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 <sup>(1)(2)</sup>	2024 <sup>(2)</sup>
	2600 MHz	10 MHz <sup>(1)</sup>	2028
	3300 MHz	30 MHz	2034
	3500 MHz	40 MHz	2035
<b>Macau</b>	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) Following a successful bid of 10 MHz spectrum at the 2600 MHz spectrum band by a subsidiary of the Group in 2021 for a 15-year period to 2039, the spectrum will be transferred to the joint venture and commence immediately upon the expiry of the existing licence held by the joint venture in March 2024. Such joint venture will also obtain two other 10 MHz spectrums at the 2600 MHz spectrum band from another joint venture partner, with the assignment periods from March 2024 to March 2028 and from March 2028 to March 2039 respectively. Together, the joint venture will hold 20 MHz spectrums at the 2600 MHz spectrum band from 2024 to 2039.