

# Management Discussion and Analysis

## Financial Performance Summary

	1H 2021 HK\$ million	1H 2020 HK\$ million	Change
<b>Revenue</b>	<b>2,565</b>	1,982	<b>+29%</b>
Net customer service revenue	1,630	1,664	-2%
• Local service revenue	1,503	1,443	+4%
• Roaming service revenue	127	221	-43%
- Data	87	146	-40%
- Non-data	40	75	-47%
Hardware revenue	935	318	+194%
• Bundled sales revenue	166	149	+11%
• Standalone handset sales revenue	769	169	+355%
Net customer service margin	1,413	1,462	-3%
<i>Net customer service margin %</i>	<b>87%</b>	88%	<b>-1% point</b>
Standalone handset sales margin	24	3	+700%
<b>Total margin</b>	<b>1,437</b>	1,465	-2%
- CACs	(234)	(234)	-
- Less: Bundled sales revenue	166	149	+11%
CACs (net of hardware revenue)	(68)	(85)	+20%
Operating expenses	(651)	(635)	-3%
<i>Operating expenses as a % of net customer service margin</i>	<b>46%</b>	43%	<b>-3% points</b>
Share of EBITDA of a joint venture	29	33	-12%
<b>EBITDA <sup>(1)</sup></b>	<b>747</b>	778	-4%
Service EBITDA <sup>(1)</sup>	723	775	-7%
<i>Service EBITDA <sup>(1)</sup> margin %</i>	<b>44%</b>	47%	<b>-3% points</b>
CAPEX (excluding telecommunications licences)	(324)	(105)	-209%
EBITDA <sup>(1)</sup> less CAPEX	423	673	-37%
Depreciation and amortisation <sup>(3)</sup>	(655)	(631)	-4%
<b>EBIT <sup>(2)</sup></b>	<b>92</b>	147	-37%
Service EBIT <sup>(2)</sup>	68	144	-53%
Net interest and other finance (costs)/income <sup>(3)</sup>	(15)	43	-135%
<b>Profit before taxation</b>	<b>77</b>	190	-59%
Taxation <sup>(3)</sup>	(46)	(44)	-5%
<b>Profit attributable to shareholders</b>	<b>31</b>	146	<b>-79%</b>

Note 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.

Note 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.

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

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### Review of Financial Results

Total revenue of the Group, comprising service revenue and hardware revenue, increased by 29% to HK\$2,565 million (1H 2020: HK\$1,982 million) in the first half of 2021.

Service revenue decreased by 2% to HK\$1,630 million (1H 2020: HK\$1,664 million), primarily attributable to HK\$94 million or 43% decline in roaming service revenue as travel restrictions persisted since the second quarter of 2020. Despite the impact on roaming business, local service revenue grew HK\$60 million or 4% to HK\$1,503 million (1H 2020: HK\$1,443 million) compared with the same period last year, mainly driven by an encouraging 58% growth in corporate solution revenue during the period.

Hardware revenue of HK\$935 million was HK\$617 million or 194% higher than the same period in 2020, mainly as a result of deferred launch and supply schedule of new smartphones from last year.

Operating costs, which comprise CACs, staff costs and other operating expenses, increased by HK\$14 million or 2% to HK\$936 million (1H 2020: HK\$922 million). The increase was mainly attributable to the higher network costs to support the expanded network coverage as well as the acquired 5G technology, partially offset by the improved structural cost base followed by the cost efficiency enhancement initiatives emplaced in 2020.

Total EBITDA of the Group decreased by HK\$31 million or 4% to HK\$747 million for the first half of 2021 due to the reasons above. Total EBIT decreased by HK\$55 million or 37% as the launch of the 5G network during 2020 together with the additional spectrum amortisation resulted in a 4% increase in depreciation and amortisation.

Profit attributable to shareholders and earnings per share were HK\$31 million and 0.64 HK cents, a 79% decrease compared with HK\$146 million and 3.03 HK cents respectively of the same period last year. The decrease was mainly due to lower interest income from the significant drop in bank deposit rate since mid-2020.

## Key Performance Indicators

	1H 2021	1H 2020	Change
Number of postpaid customers ('000)	<b>1,423</b>	1,458	-2%
Number of prepaid customers ('000)	<b>1,810</b>	1,851	-2%
Total customers ('000)	<b>3,233</b>	3,309	-2%
Postpaid customers to total customer base (%)	<b>44%</b>	44%	-
Postpaid customers' contribution to net customer service revenue (%)	<b>89%</b>	90%	-1% point
Monthly churn rate of postpaid customers (%)	<b>1.1%</b>	1.1%	-
Postpaid gross ARPU (HK\$)	<b>194</b>	196	-1%
Postpaid net ARPU (HK\$)	<b>171</b>	170	+1%
Postpaid net AMPU (HK\$)	<b>148</b>	151	-2%
Local postpaid gross ARPU (HK\$)	<b>183</b>	175	+5%
Local postpaid net ARPU (HK\$)	<b>160</b>	150	+7%

The total number of customers in Hong Kong and Macau was approximately 3.2 million as of 30 June 2021, compared with approximately 3.3 million as of 30 June 2020. The decrease was mainly the result of fewer prepaid customers in Macau, partially offset by strong growth in Hong Kong prepaid customers followed by the successful launch of SoSIM in November 2020. The monthly postpaid churn rate remained stable at 1.1% (1H 2020: 1.1%). Local postpaid net ARPU increased by 7% to HK\$160 mainly due to increased contributions from the corporate segment as well as uplift from 5G services upgrades.

## Net Interest and Other Finance Costs

Net interest and other finance costs (with share of a joint venture) amounted to HK\$15 million for the first half of 2021, compared with a net income of HK\$43 million for the same period last year. The decrease was mainly due a significant drop in the bank deposit rates from an average at 2.40% for the first half of 2020 to approximately 0.34% for the first half of 2021, coupled with the reduction in net cash balance from HK\$5,416 million at the beginning of 2020 to HK\$5,106 million as of 30 June 2021 subsequent to the settlement of 5G investment and spectrum spending.

The Group continues to maintain a healthy financial position with a net cash position of HK\$5,106 million as of 30 June 2021 (as of 31 December 2020: HK\$5,251 million).

## Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 20% (1H 2020: 6%) of the Group's service revenue, increased by 209% to HK\$324 million. The increase was mainly attributable to capital investment in 5G infrastructure during the period. The Group continues to be disciplined in scrutinising projects with care and ensuring that adequate resources are made available in accordance with operational and technological needs.

### Summary of spectrum investment

as of 30 June 2021

<u>Spectrum band</u>	<u>Bandwidth</u>	<u>Year of expiry</u>	<u>Spectrum band</u>	<u>Bandwidth</u>	<u>Year of expiry</u>
<b>Hong Kong</b>			<b>Macau</b>		
900 MHz	10 MHz	2026	900 MHz	10 MHz	2023
900 MHz	10 MHz	2036	1800 MHz	20 MHz	2023
1800 MHz	23.2 MHz	2021 <sup>1</sup>	2100 MHz	10 MHz	2023
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			

1 The existing spectrum in the 1800 MHz band will be renewed from 23.2 MHz to 30 MHz in September 2021 for 15 years.

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