

Management Discussion and Analysis

Financial Performance Summary

	1H 2022 HK\$ million	1H 2021 HK\$ million	Change
Revenue	2,298	2,565	-10%
Net customer service revenue	1,558	1,630	-4%
• Local service revenue	1,418	1,503	-6%
• Roaming service revenue	140	127	10%
Hardware and other product revenue	740	935	-21%
• Bundled sales revenue	194	166	17%
• Standalone sales revenue	546	769	-29%
Net customer service margin	1,373	1,413	-3%
<i>Net customer service margin %</i>	88%	87%	1% point
Standalone hardware and other product sales margin	17	24	-29%
Total margin	1,390	1,437	-3%
- CACs	(259)	(234)	-11%
- Less: Bundled sales revenue	194	166	17%
CACs (net of hardware and other product revenue)	(65)	(68)	4%
Operating expenses	(658)	(651)	-1%
<i>Operating expenses as a % of net customer service margin</i>	48%	46%	-2% points
Share of EBITDA of a joint venture	28	29	-3%
EBITDA ⁽¹⁾	695	747	-7%
Service EBITDA ⁽¹⁾	678	723	-6%
<i>Service EBITDA ⁽¹⁾ margin %</i>	44%	44%	-
CAPEX (excluding telecommunications licences)	(157)	(324)	52%
EBITDA ⁽¹⁾ less CAPEX	538	423	27%
Depreciation and amortisation ⁽³⁾	(738)	(655)	-13%
(LBIT)/EBIT ⁽²⁾	(43)	92	-147%
Service (LBIT)/EBIT ⁽²⁾	(60)	68	-188%
Net interest and other finance costs ⁽³⁾	(27)	(15)	-80%
(Loss)/profit before taxation	(70)	77	-191%
Taxation ⁽³⁾	(26)	(46)	43%
(Loss)/profit attributable to shareholders	(96)	31	-410%

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, 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: (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.

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

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Review of Financial Results

Revenue of the Group, consisting of service revenue and hardware and other product revenue, decreased by 10% to HK\$2,298 million (1H 2021: HK\$2,565 million) in the first half of 2022.

Service revenue weakened by 4% compared with the same period last year mainly due to HK\$85 million or 6% lower local service revenue from intense competition and the slowdown of corporate solution revenue in light of the tightened measures during the fifth-wave of COVID-19 in Hong Kong during the first half of 2022. This decline was partially offset by a slight improvement in roaming service revenue.

Hardware and other product revenue reported a HK\$195 million or 21% drop as a result of supply chain constraints and the impact of deferred launch of new smartphones from 2020 which was reflected in the first half of 2021.

Operating costs, which comprise CACs, staff costs and other operating expenses, decreased slightly by HK\$28 million or 3% to HK\$908 million (1H 2021: HK\$936 million). EBITDA decreased by HK\$52 million or 7% to HK\$695 million in the first six months of 2022. The lower EBITDA was mainly attributable to the aforementioned lower service revenue and the higher network operating costs driven by the Group's effort in building the best mobile network in Hong Kong, which was partially offset by the strengthened shop-in-shop strategy that rides on the extensive distribution network of the CKHH Group by creating sales points in Fortress, ParkNShop and Watsons, as well as ongoing efficiency enhancement initiatives.

LBIT was HK\$43 million which, compared to the same period last year, shifted downward by HK\$135 million or 147%. Aside from the lower service revenue and the higher network operating costs impacting EBITDA above, the decrease was mostly due to the higher depreciation and amortisation from the renewal of spectrum licence in 2021 as well as the robust investments in network infrastructure and related-technologies to cater the upsurge demand in digital experience.

Loss attributable to shareholders and loss per share were HK\$96 million and 1.99 HK cents, a 410% decrease compared to the same period last year. The cash and bank balances of the Group decreased from HK\$3,975 million from the beginning of 2022 to HK\$3,759 million as of 30 June 2022, mainly attributable to the distribution of 2021 final dividend in May 2022 as well as the settlement of the capital expenditure on the advanced 5G technology and network coverage expansion of the Group.

Key Performance Indicators

	1H 2022	1H 2021	Change
Number of postpaid customers ('000)	1,476	1,423	4%
Number of prepaid customers ('000)	1,538	1,810	-15%
Total customers ('000)	3,014	3,233	-7%
Postpaid customers to total customer base (%)	49%	44%	5% points
Postpaid customers' contribution to net customer service revenue (%)	90%	89%	1% point
Monthly churn rate of postpaid customers (%)	0.7%	1.1%	0.4% point
Postpaid gross ARPU (HK\$)	179	194	-8%
Postpaid net ARPU (HK\$)	161	171	-6%
Postpaid net AMPU (HK\$)	143	148	-3%
Local postpaid gross ARPU (HK\$)	167	183	-9%
Local postpaid net ARPU (HK\$)	149	160	-7%

As of 30 June 2022, the total number of customers in Hong Kong and Macau amounted to approximately 3.0 million, a drop of 7% from approximately 3.2 million compared with the same period last year, largely due to the real-name registration for SIM cards in Hong Kong which commenced on 1 March 2022. The decline was partially offset by the increase in postpaid, mobile broadband and SoSIM customers. Monthly churn rate of postpaid customers improved to 0.7% (1H 2021: 1.1%) mainly due to the effect of focused strategy to improve customer loyalty and the continuous effort in customer retention. Local postpaid net ARPU decreased by 7% to HK\$149 as a result of softer ARPU from market competition and slower than expected corporate solutions contributions as a result of the tightened measures during the fifth-wave of COVID-19 in Hong Kong at the beginning of 2022.

Net Interest and Other Finance Costs

Net interest and other finance costs (with share of a joint venture) of HK\$27 million in the first half of 2022 compared to HK\$15 million for the same period last year. The increase was primarily resulting from higher interest accretion for the renewal of spectrum licence in 2021, whilst the higher bank deposit rate from an average of 0.34% in the first half of 2021 to an average of 0.57% in the first half of 2022 was largely offset by the lower cash and bank balances subsequent to the settlement of 2021 special interim dividend in September 2021.

The Group continues to maintain a healthy financial position with cash and bank balances of HK\$3,759 million as of 30 June 2022 (31 December 2021: HK\$3,975 million).

Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 10% (1H 2021: 20%) of the service revenue of the Group, decreased by 52% to HK\$157 million. This decrease was mainly due to higher capital expenditure in the first half of 2021 while most of the 5G network infrastructure has been incurred in 2021. 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 30 June 2022

Spectrum band	Bandwidth	Year of expiry	Spectrum band	Bandwidth	Year of expiry
Hong Kong			Macau		
700 MHz	20 MHz	2037	900 MHz	10 MHz	2023
900 MHz	10 MHz	2026	1800 MHz	20 MHz	2023
900 MHz	10 MHz	2036	2100 MHz	10 MHz	2023
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			

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