

Management Discussion and Analysis

Financial Performance Summary

	1H 2023 HK\$ million	1H 2022 HK\$ million	Change
Revenue	2,328	2,298	+1%
Net customer service revenue	1,793	1,558	+15%
• Local service revenue	1,558	1,418	+10%
• Roaming service revenue	235	140	+68%
Hardware and other product revenue	535	740	-28%
Net customer service margin	1,516	1,373	+10%
<i>Net customer service margin %</i>	85%	88%	-3% points
Standalone hardware and other product sales margin	12	17	-29%
Total margin	1,528	1,390	+10%
- CACs	(221)	(259)	+15%
- Less: Bundled sales revenue	138	194	-29%
CACs (net of hardware and other product revenue)	(83)	(65)	-28%
Operating expenses	(749)	(658)	-14%
<i>Operating expenses as a % of net customer service margin</i>	49%	48%	-1% point
Share of EBITDA of a joint venture	31	28	+11%
EBITDA ⁽¹⁾	727	695	+5%
Service EBITDA ⁽¹⁾	715	678	+5%
<i>Service EBITDA ⁽¹⁾ margin %</i>	40%	44%	-4% points
CAPEX (excluding telecommunications licences)	(163)	(157)	-4%
EBITDA ⁽¹⁾ less CAPEX	564	538	+5%
Depreciation and amortisation ⁽³⁾	(762)	(738)	-3%
LBIT ⁽²⁾	(35)	(43)	+19%
Service LBIT ⁽²⁾	(47)	(60)	+22%
Net interest and other finance income/(costs) ⁽³⁾	46	(27)	+270%
Profit/(loss) before taxation	11	(70)	+116%
Taxation ⁽³⁾	(30)	(26)	-15%
Loss attributable to shareholders	(19)	(96)	+80%

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 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 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 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 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 income/(costs) and taxation include the Group's share of joint venture's respective items.

Management Discussion and Analysis

Review of Financial Results

Service revenue grew by 15% year-on-year to HK\$1,793 million (1H 2022: HK\$1,558 million) during the first half of 2023. Benefitting from the lifting of travel restrictions around the world, roaming service revenue increased considerably by HK\$95 million or 68% year-on-year to HK\$235 million in the first half of 2023, and has been a key driver of revenue growth. Local service revenue grew at a healthy rate of 10% compared to the same period last year, as market competition stabilised.

Hardware and other product revenue decreased by HK\$205 million or 28% to HK\$535 million as a result of softened demand.

Total revenue of the Group only grew by HK\$30 million or 1% to HK\$2,328 million (1H 2022: HK\$2,298 million), as the higher roaming and local service revenue were largely offset by lower margin hardware and other product revenue as aforementioned. Total margin increased by HK\$138 million or 10% year-on-year to HK\$1,528 million.

Operating expenses increased by HK\$91 million or 14% to HK\$749 million (1H 2022: HK\$658 million), mainly attributable to higher network operating costs.

EBITDA rose by HK\$32 million or 5% to HK\$727 million in the first six months of 2023. The increase was primarily due to the notable increase in total margin, which was partially offset by higher network operating costs relating to the Group's investments in the expansion and enhancements of its network infrastructure.

LBIT thereby improved by HK\$8 million or 19% to HK\$35 million compared to the same period last year. The improvement in EBITDA was partially offset by higher amortisation expenses associated with capitalised CACs as well as higher depreciation expenses incurred due to the abovementioned 5G network enhancements. Furthermore, as a result of interest rate hikes, the Group's bank interest income increased by seven-fold to HK\$84 million in the first half of 2023. This resulted in a net interest income of HK\$46 million for the first six months of 2023 as compared to a net interest cost of HK\$27 million for the same period last year.

Loss attributable to shareholders and loss per share narrowed to HK\$19 million (1H 2022: HK\$96 million) and 0.39 HK cents (1H 2022: 1.99 HK cents) respectively, an 80% improvement compared to the same period last year. The improvement was mainly due to a surge in bank interest income resulting from interest rate hikes as aforementioned.

Key Performance Indicators

	1H 2023	1H 2022	Change
Number of postpaid customers ('000)	1,467	1,476	-1%
Number of prepaid customers ('000)	1,940	1,538	+26%
Total customers ('000)	3,407	3,014	+13%
Postpaid customers to total customer base (%)	43%	49%	-6% points
Postpaid customers' contribution to net customer service revenue (%)	88%	90%	-2% points
Monthly churn rate of postpaid customers (%)	0.9%	0.7%	-0.2% point
Postpaid gross ARPU (HK\$)	197	179	+10%
Postpaid net ARPU (HK\$)	180	161	+12%
Postpaid net AMPU (HK\$)	154	143	+8%

As of 30 June 2023, the customer base of the Group further expanded by 13%, currently standing at approximately 3.4 million compared to approximately 3.0 million for the same period last year. This improvement was mainly due to an increase in the number of prepaid customers. With continued growth in 5G Broadband and other customers, the Group's 5G penetration rate increased by 18% points to 38% compared to the same period last year. The monthly churn rate of postpaid customers increased marginally to 0.9% (1H 2022: 0.7%), which was attributed to a post-pandemic reduction in work-from-home arrangements from the Group's corporate customers. That reduction, however, had only a limited impact on the Group's related income. Overall, the Group's customer value management initiatives had proved effective in enhancing customer engagement and loyalty. Postpaid net ARPU increased by 12% to HK\$180 mainly driven by an increase in revenue from the Group's corporate solutions and roaming segments that gained momentum in the first half of the year.

Net Interest and Other Finance Income

Net interest and other finance income (with share of a joint venture) was HK\$46 million in the first half of 2023 (1H 2022: net costs of HK\$27 million). The improvement was primarily due to a seven-fold increase in bank interest income resulting from a surge in deposit interest rate from an average of 0.57% in the first half of 2022 to an average of 4.60% in the first half of 2023.

The Group continues to maintain a healthy financial position with cash and bank balances of HK\$3,718 million as of 30 June 2023 (31 December 2022: HK\$3,700 million).

Capital Expenditure

Capital expenditure on property, plant and equipment, which accounted for 9% (1H 2022: 10%) of the service revenue of the Group, increased by 4% to HK\$163 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 30 June 2023

Spectrum band	Bandwidth	Year of expiry	Spectrum band	Bandwidth	Year of expiry
Hong Kong			Macau		
700 MHz	20 MHz	2037	900 MHz	10 MHz	2025
900 MHz	10 MHz	2026	1800 MHz	20 MHz	2028
900 MHz	10 MHz	2036	2100 MHz	10 MHz	2025
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			

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

Note 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.