

# Chairman's Statement

Hutchison Telecommunications Hong Kong Holdings Limited and its subsidiaries report 2016 results achieved in a market under continued downward trend in roaming and hardware revenue. The Group has made continued effort to nurture future service revenue growth by focusing on innovative products offering, enhancing customer service and improving quality on the self-owned advanced network infrastructure.

## Results

Consolidated revenue comprising service and hardware revenue from mobile and fixed-line businesses decreased by 45% from HK\$22,042 million in 2015 to HK\$12,024 million in 2016. Over 99% of the decline in revenue was due to lower hardware revenue as a result of lesser demand for new smartphones during the year.

Consolidated EBITDA and EBIT in 2016 were HK\$2,465 million and HK\$1,044 million respectively, compared to HK\$2,788 million and HK\$1,430 million respectively in 2015. Profit attributable to shareholders in 2016 amounted to HK\$701 million, a drop of 23% compared to HK\$915 million in 2015.

Basic earnings per share for 2016 was 14.55 HK cents compared to 18.99 HK cents for 2015.

## Dividends

The Board recommends the payment of a final dividend of 6.90 HK cents (2015: 9.00 HK cents) per share for the year ended 31 December 2016. The proposed final dividend will be payable on Wednesday, 24 May 2017, following the approval of shareholders at the Annual General Meeting of the Company, to those persons registered as shareholders of the Company on Monday, 15 May 2017, being the record date for determining shareholders' entitlement to the proposed final dividend. Including the interim dividend of 4.00 HK cents per share, full year dividend amounts to 10.90 HK cents per share. This payout is equivalent to 75% of profit attributable to shareholders for the year, in line with the sustainable dividend policy of the Company to enhance shareholder value over the long term.

## Business Review

### Mobile business - Hong Kong and Macau

Mobile business revenue in 2016 was HK\$8,332 million, a decrease of 55% compared to HK\$18,477 million in 2015. 98% of the decline in revenue was due to lower hardware revenue because of reduced demand for new smartphones during the year. Hardware revenue decreased significantly by 69% from HK\$14,371 million in 2015 to HK\$4,386 million in 2016.

Mobile net customer service revenue in 2016 was HK\$3,946 million, a 4% decrease compared to HK\$4,106 million in 2015. The decrease in mobile net customer service revenue was mainly due to a HK\$109 million, or 13% decrease in roaming revenue during the year. Excluding roaming revenue, local service revenue was slightly lower than that in 2015 as a result of a drop in customer number in the first quarter of 2016 and such drop was turnaround since the second quarter of 2016. The net customer service margin in 2016 was maintained at 93% despite a lower roaming revenue during the year.

EBITDA and EBIT in 2016 were HK\$1,333 million and HK\$600 million respectively, a decrease of 19% and 39% respectively compared to those of 2015. Service EBITDA in 2016 was 5% lower than that of 2015 mainly as a result of decrease in roaming margin as well as increase in selling expenses from higher volume of service transactions completed in 2016, partially offset by savings in operating expenses. Corresponding service EBITDA margin was maintained at 32%.

As of 31 December 2016, the Group was serving approximately 3.2 million customers in Hong Kong and Macau (2015: approximately 3.0 million), of which the number of postpaid customers was approximately 1.5 million (2015: approximately 1.5 million). The overall churn rate of postpaid customers was substantially improved to 1.3% in 2016 from 1.8% in 2015, which reflected much improved customers' satisfaction on the 4G LTE network quality and enhanced customer service.

Customer response from various segments was overwhelming and the number of data-centric customers increased in 2016 following the introduction of innovative lifestyle-related tariff plans with various offerings in speed, content and VAS. The blended local postpaid net ARPU improved 4% from HK\$161 in 2015 to HK\$168 in 2016 as a result of higher data consumption during the year. Blended local postpaid net AMPU improved 5% to HK\$161 in 2016 from HK\$154 in 2015. Growing popularity around OTT applications and IoT usage prompted the Group to prepare for a new era of digitalisation and automation, in which more personalised content will be offered to customers. The Group will focus on developing local and roaming products and tariff plans to meet demand from various customer base and to boost revenue. At the same time, the Group is committed to developing customer loyalty initiatives for long-term benefits.

In 2016, the Group enhanced its mobile network by refarming a portion of existing 900MHz spectrum band to enhance indoor 4G LTE coverage, while a new 2300MHz spectrum band was activated to meet the rising demand for data. Small-cell technology was deployed to enhance both coverage and capacity in heavy traffic areas and growing data demand into the 5G era.

### Fixed-line business

Fixed-line service revenue in 2016 was HK\$4,127 million, an increase of 4% compared to HK\$3,973 million in 2015. This improvement was mainly due to higher revenue from the corporate and business market segments as well as the international and local carrier markets, partially offset by lower revenue from residential market due to keen competition.

More revenue was generated by developing ICT solutions for corporate customers with sophisticated needs when compared to 2015. During 2016, the Group deepened penetration of various market segments such as banking, insurance, logistics and healthcare. Moving forward, the Group will place more focus on penetrating new industry segments and offer industry-specific one-stop ICT solutions. In addition, the Group will leverage its data centre capabilities and sophisticated network infrastructure to develop high security cloud solutions to help customers achieve greater cost efficiency, while accelerating digital transformation.

EBITDA and EBIT in 2016 slightly decreased by 2% to HK\$1,252 million and HK\$564 million respectively compared to those of 2015.

### Outlook

The appetite for telecommunications is growing, regardless of evolving economies locally and globally. With this in mind, the Group is committed to introducing innovative products and developing new revenue streams. The Group aims to boost customer loyalty by enhancing mobile and fixed-line service quality. These new initiatives would at the same time help maximise customer satisfaction and promote efficiency in the sales process.

The mobile, fixed-line, Wi-Fi and content capabilities of the Group are delivered via integrated network infrastructure and benefit from years of experience in serving a variety of market segments. In addition, the Group is committed to offering customised products and services for the unique needs of each segment. The Group will also focus on offering an array of VAS and delivering customer experience of the highest standard.

I am confident the management team will reinforce our position in mobile and fixed-line businesses.

Finally, I would like to take this opportunity to thank the Board and all staff members for their dedication, professionalism and determination to succeed.

**FOK Kin Ning, Canning**  
Chairman

Hong Kong, 28 February 2017

