

Notes to the Condensed Consolidated Interim Financial Statements

1 General Information

Hutchison Telecommunications Hong Kong Holdings Limited (the "Company") was incorporated in the Cayman Islands on 3 August 2007 as a company with limited liability. The address of its registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company and its subsidiaries (together the "Group") are principally engaged in mobile telecommunications business in Hong Kong and Macau and fixed-line telecommunications business in Hong Kong.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited and whose American depositary shares, each representing ownership of 15 shares, are eligible for trading in the United States of America only in the over-the-counter market.

These unaudited condensed consolidated interim financial statements (the "interim financial statements") are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. These interim financial statements were approved for issuance by the Board of Directors on 25 July 2017.

2 Basis of Preparation

These interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting". These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

As at 30 June 2017, the current liabilities of the Group exceeded its current assets by approximately HK\$1,073 million. Included in the current liabilities were non-refundable customer prepayments of HK\$678 million which will gradually reduce over the contract terms of relevant subscriptions through delivery of services. Excluding the non-refundable customer prepayments, the net current liabilities of the Group would have been approximately HK\$395 million. Management of the Group anticipates the net cash inflows from its operations, together with the ability to draw down from available banking facilities, would be sufficient to enable the Group to meet its liabilities as and when they fall due. Accordingly, these interim financial statements have been prepared on a going concern basis.

On 6 March 2017, a subsidiary of the Company, entered into a sale and purchase agreement with Cosmos Technology Limited, a subsidiary of CK Hutchison Holdings Limited ("CKHH"), to acquire the entire issued share capital of Keen Clever Holdings Limited ("Keen Clever"), which owns 50% interest in HGC GlobalCentre Limited ("HGCGC") (engages in the provision of data centre services in Hong Kong), at a consideration of HK\$0.9 million (the "Acquisition"). The Acquisition was completed on the same day. Together with the 50% interest in HGCGC originally held by the Group (which was accounted for as an investment in a joint venture prior to the Acquisition), the Group owns 100% interest in HGCGC and it then becomes a wholly owned subsidiary of the Group.

2 Basis of Preparation (Continued)

Given the Company and Cosmos Technology Limited were under the common control of CKHH both before and after the Acquisition, the Acquisition is a business combination under common control and accounted for using the principle of merger accounting.

Accordingly, the assets and liabilities of Keen Clever and HGCGC acquired by the Group are stated at predecessor value, and were included in the Group's interim financial statements from the beginning of the earliest period presented as if Keen Clever and HGCGC had always been part of the Group. No amount is recognised as consideration for goodwill or excess of Group's interest in the net fair value of Keen Clever and HGCGC's identified assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of CKHH's interest.

The condensed consolidated income statement includes the result of Keen Clever and HGCGC from the earliest date presented or since the date when Keen Clever and HGCGC first came under the control of CKHH, where there is a shorter period, regardless of the date of the common control combination. Comparative figures in the Group's interim financial statements for the six months ended 30 June 2017 have been restated to include the results for the six months from 1 January 2016 to 30 June 2016 and the assets and liabilities as at 31 December 2016 of Keen Clever and HGCGC.

The following is a reconciliation of the effect arising from the business combination under common control on the condensed consolidated income statement and condensed consolidated statement of financial position in connection with the Acquisition.

	The Group As previously reported ^(a) HK\$ millions	Effect arising from the Acquisition HK\$ millions	The Group As restated HK\$ millions
Profit for the six months ended 30 June 2016	415	(14)	401
Net assets as at 31 December 2016	12,156	(95)	12,061

(a) Prior to the Acquisition, the results and assets and liabilities of HGCGC are accounted for in the interim financial statements using the equity method of accounting.

A uniform set of accounting policies is adopted by Keen Clever and HGCGC. All intra-group transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation.

3 Significant Accounting Policies

These interim financial statements have been prepared under the historical cost convention. The accounting policies applied and methods of computation used in the preparation of these interim financial statements are consistent with those used in 2016 annual financial statements, except for the adoption of new or revised standards, amendments and interpretations which are relevant to the operations of the Group and mandatory for annual periods beginning 1 January 2017. The effect of the adoption of these new or revised standards, amendments and interpretations was not material to the results of operations or financial position of the Group.

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4 Revenue

Revenue comprises revenues from provision of mobile telecommunications services, sales of telecommunications hardware and provision of fixed-line telecommunications services. An analysis of revenue is as follows:

	Six months ended 30 June	
	2017 HK\$ millions	(Restated) 2016 HK\$ millions
Mobile telecommunications services	1,930	1,957
Fixed-line telecommunications services	1,966	1,914
Telecommunications hardware	1,173	1,498
	5,069	5,369

5 Segment Information

The Group is organised into two operating segments: mobile business and fixed-line business. "Others" segment represents corporate support functions. Management of the Group measures the performance of its segments based on EBITDA/(LBITDA)^(a) and EBIT/(LBIT)^(b). Revenue from external customers is after elimination of inter-segment revenue. The segment information on revenue, EBITDA/(LBITDA) and EBIT/(LBIT) agreed to the aggregate information in these interim financial statements. As such, no reconciliation between the segment information and the aggregate information in these interim financial statements are presented.

	Six months ended 30 June 2017				
	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Revenue - service	1,944	2,167	-	(215)	3,896
Revenue - hardware	1,173	-	-	-	1,173
	3,117	2,167	-	(215)	5,069
Operating costs	(2,470)	(1,485)	(60)	215	(3,800)
EBITDA/(LBITDA)	647	682	(60)	-	1,269
Depreciation and amortisation	(407)	(385)	-	-	(792)
EBIT/(LBIT)	240	297	(60)	-	477
Other information: Additions to property, plant and equipment	197	230	-	-	427

5 Segment Information (Continued)

	Six months ended 30 June 2016 (Restated)				
	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Revenue - service	1,973	2,112	-	(214)	3,871
Revenue - hardware	1,499	-	-	(1)	1,498
Operating costs	(2,807)	(1,443)	(59)	215	(4,094)
EBITDA/(LBITDA)	665	669	(59)	-	1,275
Depreciation and amortisation	(351)	(389)	-	-	(740)
EBIT/(LBIT)	314	280	(59)	-	535
Other information:					
Additions to property, plant and equipment	198	236	-	-	434
Additions to telecommunications licences	1	-	-	-	1

(a) EBITDA/(LBITDA) is defined as earnings/(losses) before interest income, interest and other finance costs, taxation, depreciation and amortisation and share of results of joint ventures.

(b) EBIT/(LBIT) is defined as earnings/(losses) before interest income, interest and other finance costs, taxation and share of results of joint ventures.

6 Interest and Other Finance Costs, Net

	Six months ended 30 June	
	2017 HK\$ millions	(Restated) 2016 HK\$ millions
Interest income:		
Interest income from a joint venture	8	9
Interest and other finance costs:		
Bank loans	(35)	(29)
Loan from a fellow subsidiary	(5)	(5)
Notional non-cash interest accretion ^(a)	(7)	(19)
Guarantee and other finance fees	(13)	(13)
	(60)	(66)
Less: Amounts capitalised on qualifying assets	3	3
	(57)	(63)
Interest and other finance costs, net	(49)	(54)

(a) Notional non-cash interest accretion represents the notional adjustments to accrete the carrying amount of certain obligations recognised in the condensed consolidated statement of financial position such as licence fees liabilities and asset retirement obligations to the present value of the estimated future cash flows expected to be required for their settlement in the future.

7 Taxation

	Six months ended 30 June					
	Current taxation HK\$ millions	2017 Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	2016 Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	1	77	78	1	73	74
Outside Hong Kong	2	2	4	3	1	4
	3	79	82	4	74	78

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2016: 16.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits less available tax losses.

Deferred taxation has been provided at the relevant rates on timing differences.

8 Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders of the Company of approximately HK\$324 million (30 June 2016 (Restated): HK\$362 million) and on the weighted average number of 4,818,896,208 (30 June 2016: Same) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2017 is calculated by adjusting the weighted average number of 4,818,896,208 (30 June 2016: Same) ordinary shares in issue with the weighted average number of 117,695 (30 June 2016: 123,372) ordinary shares deemed to be issued assuming the exercise of the share options.

9 Dividend

	Six months ended 30 June	
	2017	2016
Interim dividend (HK\$ millions)	188	193
Interim dividend per share (HK cents)	3.90	4.00

In addition, final dividend in respect of year 2016 of 6.90 HK cents per share (30 June 2016: 9.00 HK cents per share) totalling HK\$332 million (30 June 2016: HK\$433 million) was approved and paid during the six months ended 30 June 2017.

10 Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$427 million (30 June 2016 (Restated): HK\$434 million). Property, plant and equipment with a net book value of HK\$0.4 million (30 June 2016: HK\$5 million) was disposed of during the period, resulting in an insignificant loss (30 June 2016: insignificant loss).

11 Other Non-Current Assets

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Prepayments	675	721
Non-current deposits	46	49
	721	770

12 Cash and Cash Equivalents

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Cash at banks and in hand	262	334
Short-term bank deposits	97	23
	359	357

The carrying values of cash and cash equivalents approximate their fair values.

13 Trade Receivables and Other Current Assets

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Trade receivables	1,510	1,471
Less: Provision for doubtful debts	(119)	(106)
Trade receivables, net of provision ^(a)	1,391	1,365
Other receivables	157	213
Prepayments and deposits	203	175
	1,751	1,753

The carrying values of trade receivables and other receivables approximate their fair values. The Group has established credit policies for customers. The average credit period granted for trade receivables ranges from 14 to 45 days, or a longer period for corporate or carrier customers based on individual commercial terms. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

(a) Trade receivables, net of provision

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:		
0 - 30 days	773	861
31 - 60 days	217	196
61 - 90 days	152	99
Over 90 days	249	209
	1,391	1,365

14 Trade and Other Payables

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Trade payables ^(a)	537	731
Other payables and accruals	2,047	2,047
Deferred revenue	678	708
Current portion of licence fees liabilities	57	56
	3,319	3,542

The carrying values of trade and other payables approximate their fair values.

(a) Trade payables

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
The ageing analysis of trade payables is as follows:		
0 - 30 days	202	411
31 - 60 days	95	99
61 - 90 days	45	35
Over 90 days	195	186
	537	731

15 Loan from and Interest Payable to a Fellow Subsidiary

As at 31 December 2016, the loan from a fellow subsidiary and interest payable were unsecured, bore interest at 1-month Hong Kong Interbank Offered Rate plus 1.38% per annum and repayable on demand. On 23 June 2017, the loan and interest payable were fully repaid.

The balances were denominated in HK\$.

16 Borrowings

	30 June 2017 HK\$ millions	31 December 2016 HK\$ millions
Unsecured bank loans Repayable between 2 and 5 years	4,874	4,467

The carrying values of the Group's total borrowings as at 30 June 2017 and 31 December 2016 approximate their fair values which are based on cash flows discounted using the effective interest rates of the Group's total borrowings of 1.7% per annum (31 December 2016: 2.1%) and are within level 2 of the fair value hierarchy.

17 Other Non-Current Liabilities

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Non-current licence fees liabilities	187	183
Pension obligations	120	112
Accrued expenses	222	219
	529	514

18 Share Capital

(a) Authorised share capital of the Company

The authorised share capital of the Company comprises 10 billion shares of HK\$0.25 each (31 December 2016: Same).

(b) Issued share capital of the Company

	Ordinary share of HK\$0.25 each	
	Number of shares	Issued and fully paid HK\$ millions
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	4,818,896,208	1,205

(c) Share options of the Company

The Company's share option scheme was approved on 21 May 2009. The Board of Directors may, under the share option scheme, grant share options to directors, non-executive directors or employees of the Group.

The movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	Weighted average exercise price per share HK\$	Number of share options granted
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	1.00	200,000

The exercise price of the share options granted is equal to the market price of the shares on the date of grant. The share options are exercisable during a period, subject to the vesting schedule, commencing on the date on which the share options are deemed to have been granted and ending on the date falling ten years from the date of grant of the share options (subject to early termination thereof). No share option was exercised during the six months ended 30 June 2017 (year ended 31 December 2016: Nil).

As at 30 June 2017, 200,000 (31 December 2016: Same) share options were exercisable.

19 Cash Generated from Operations

	Six months ended 30 June	
	2017 HK\$ millions	(Restated) 2016 HK\$ millions
Cash flows from operating activities		
Profit before taxation	425	479
Adjustments for:		
- Interest income (Note 6)	(8)	(9)
- Interest and other finance costs (Note 6)	57	63
- Depreciation and amortisation	792	740
- Share of results of joint ventures	3	2
Changes in working capital:		
- Decrease in trade receivables and other current assets	1	115
- (Increase)/decrease in inventories	(18)	475
- Decrease in trade and other payables	(162)	(476)
- Retirement benefits obligations	8	7
Cash generated from operations	1,098	1,396

20 Contingent Liabilities

The Group had contingent liabilities in respect of the following:

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
	Performance guarantees	470
Financial guarantees	10	11
Others	6	5
	486	636

21 Commitments

Outstanding commitments of the Group not provided for in these interim financial statements are as follows:

(a) Capital commitments

The Group had capital commitments contracted but not provided for as follows:

	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions
Property, plant and equipment	741	799

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Buildings		Other assets	
	30 June 2017 HK\$ millions	(Restated) 31 December 2016 HK\$ millions	30 June 2017 HK\$ millions	31 December 2016 HK\$ millions
Not later than one year	253	208	14	27
Later than one year but not later than five years	210	90	10	14
Later than five years	28	26	3	4
	491	324	27	45

(c) Telecommunications licence fees

A subsidiary of the Group has acquired various blocks of spectrum bands for the provision of telecommunications services in Hong Kong, certain of which over various assignment periods up to year 2021 and variable licence fees are payable on those spectrum bands based on 5% of the network revenue or the Appropriate Fee (as defined in the Unified Carrier Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fee liabilities.

22 Related Parties Transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Save as disclosed elsewhere in the interim financial statements, transactions between the Group and other related parties during the period are not significant to the Group.

No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel remuneration).