

Operations Review

MOBILE BUSINESS

A mobile pioneer in Hong Kong and Macau

Year 2009 saw the pre-eminent 3 brand reigning as Hong Kong's No.1 3G service provider and Macau's second largest mobile communications operator in subscriber numbers, despite a gloomy economic landscape.

Hong Kong's fiercely-competitive mobile communications arena gave rise to a 2009 subscriber penetration rate of more than 170% – one of the highest in the world. Our total mobile customer base in Hong Kong and Macau grew to approximately 3 million during the year under review, representing a 10% increase from 2008.

Formidable challenges such as a decline in roaming traffic and downward pressure on voice tariffs were effectively offset by 3's growth in data revenue. This was generated largely by continued momentum of our first-mover advantage among iPhone users, along with effective marketing programmes and data product promotions.

The energy pumped into iPhone and smartphone initiatives, in conjunction with provision of ultra-high speed mobile broadband service and attractive data tariffs during 2009, helped bring about a substantial increase in 3's share of Hong Kong's high-end mobile user community and produced a more than 50% upturn in data revenue.

Building on our market leadership position and strong brand in Hong Kong and Macau, 3 continues to focus on iPhone and smartphone developments, as well as integrated data-enabled devices and data service packages designed to generate loyalty and enhance benefits.

- 3 Pro Shop features a wide range of handsets, smartphones and data products



- Overwhelming response of iPhone™ 3G at the first day sales gala



Mobile customer base grew to approximately **3 million**

Spearheading the smartphone trend

After seizing the initiative in the iPhone market in 2008, we sustained our position as a trendsetter and the preferred choice of service provider for a new and rapidly-growing data community. We reinforced our first-mover advantage with launch of iPhone™ 3GS in July 2009, thereby maintaining our momentum and attracting more sophisticated high-yield data users to the 3 brand.

During 2009, we also launched a wide range of smartphone models and innovative data driven devices which successfully contributed to our strong growth in data revenue.

We strategically built a strong smartphone customer base by pursuing a differentiated marketing strategy to set us apart from competitors. Industry leading initiatives included launch of flexible payment-and-installment bank offers, data usage plans with a maximum charge cap, unlimited Wi-Fi usage, a daily pass for unlimited data roaming and a handset replacement plan, as well as the 3Smart Club to offer unsurpassed iPhone services.



• 3 Macau supported the World Telecommunication and Information Society Day

• First to introduce iPhone™ 3GS in Hong Kong and Macau



• KKBOX Music Service boasting the world's largest library of Chinese music was unveiled in Hong Kong and Macau

• Planet 3 mobile portal presents an exciting collection of multimedia contents in 15 channels



Winning data services

2009 saw significant growth of higher margin non-voice revenues derived from High Speed Downlink Packet Access ("HSDPA") mobile broadband services.

We sought to distinguish our 3reedom range of USB modems from other data products in the market by appealing to a desire for speed and style. This involved packaging USB modems in a range of colourful "skins" to win the attention of individuals looking for personalisation. We further caught the market's attention by launching Yahoo! 3reedom, a joint promotion with Yahoo! that rewarded USB modem subscribers with free access to a range of Yahoo! content.

These chic data cards, complemented by a bundled netbook option, made available throughout the extensive Hutchison Whampoa retail network continued to be highly popular and encouraged further uptake of mobile broadband services.

In response to the shift of competition from voice to data, our strategy also focused on marketing a range of highly-competitive data tariffs, which sharpened our competitive edge in the mobile data space. We firstly introduced a tariff plan in the form of the highly-flexible EasyPlus VAS Package for HSDPA handsets, which came complete with a maximum charge cap for data usage. Evolving from EasyPlus VAS Data Plan and catering for the increasing popularity of smartphones, the launch of "infinitem" voice and data integrated tariff with data charge cap further offered a total solution for enjoying seamless communication and peace-of-mind mobile surfing experience.



• Promotion of unsurpassed applications for iPhone™ 3GS

• An impressive array of stylish 3freedom and Yahoo! 3freedom USB modems



Data revenue over 50% upturn

Compelling multimedia content

In order to maximise the customer experience with our ultra-high speed mobile broadband network, we unveiled the KKBOX Music Service in November 2009, based on our exclusive partnership with Taiwan's largest online music provider. As a prime example of genuine fixed-mobile convergence, this gave rise to the world's first iPhone and Android-enabled unlimited music download service. The development opened up access to more than a million downloadable tracks and the world's largest library of Chinese music, comprising more than 220 Taiwan and Hong Kong recording labels, in addition to international labels.

In the mobile content market, we continued to maintain our leading presence by forging a partnership with an array of world-class 3G content providers. A rich mix of mobile multimedia content was delivered via our Planet 3 Portal, amounting to some 300 items of infotainment via 15 channels.

Keeping the 3 brand as a champion of mobile social networking, our launches of avant-garde INQ social mobile phones and Social King, along with Social Unlimited and Buddy Unlimited packages, had been well received by young customers. These put the hottest social media such as Facebook, YouTube, Skype, Windows Live Messenger, Yahoo! Search, MMS email and 3g mail at customers' fingertips to remain connected to their social circles from anywhere and at any time.

Unsurpassed roaming

During the year, 3 focused on serving sophisticated data users and preparing for a roaming comeback. Responding to recessionary conditions that impacted negatively on roaming revenues in 2009, we created an unsurpassed unlimited data roaming day-pass package, such that users are able to enjoy unlimited data roaming in mainland China or certain other countries across Asia, Europe and North America. These help drive up our data roaming revenues with increasing penetration of smartphones and dongles.

In fact, we continue to negotiate with other roaming operators in order to make 3 the preferred roaming partner when serving inbound visitors. We also stimulate outbound roaming usage by creating attractive bundles and applications with an emphasis on data.



• INQ Mini 3G, the second social mobile phone developed by INQ Mobile

Distinctive experience

Impressive sales reach has also played a central role in making our product-and-service portfolio available to the market. This has been achieved via a retail network encompassing more than 300 points of sale throughout branded shops, franchises and dealerships, as well as via the efforts of our well-trained corporate and direct consumer sales teams.

A dedicated team has been established to serve our sophisticated high-end users. As well as providing this customer grouping with professional after-sales support with round-the-clock hotline service, priority counters at designated 3Shops and dedicated account managers, we introduced the prestigious 3Supreme Club as a loyalty platform. Specially tailored for our iPhone users, establishment of the 3Smart Club delivers an unprecedented iPhone experience with round-the-clock customer service, the latest updates and exclusive privileges.

In another move designed to integrate telecommunications and credit card services and provide a host of exclusive mobile and spending benefits, we teamed up with DBS Bank (Hong Kong) Limited and Visa to launch the 3Everyday COMPASS VISA, offering high-value benefits and unique features. As well as providing Visa



• 3 Hong Kong, DBS Bank and Visa jointly presented a co-branded credit card - 3Everyday COMPASS VISA

• 3Supreme Club members joining the Golf Experience Day



• Professional sales and after-sales services available via a strong retail network



• Unrivalled data roaming day-pass for customers to enjoy unlimited data roaming

PayWave convenience and an interactive platform on handset portal, this exclusive card entitles holders to a hefty discount on the standalone purchase of 3G handsets, along with free Wi-Fi and DBS 3G banking services.

Far-sighted planning

Our expectation of ever-rising data speeds translates into a need to promote the mobile broadband experience with vigour, while underpinning our appeal to the market with constant upgrades on network service quality.

Ongoing network enhancement will also help consolidate our leading position to manage growing data needs. A 3G network modernisation and expansion project began in 2009 after HTCL appointed Nokia Siemens Networks as sole vendor and service

partner. Deployment of Evolved High Speed Packet Access ("HSPA+") technology throughout our 3G infrastructure will provide a number of benefits, including the ability to deliver speeds up to 42Mbps.

Genius Brand Limited, a 50:50 joint-venture between HTCL and Hong Kong Telecommunications (HKT) Limited, was among the three bidders awarded a 4G licence in January 2009 to deploy next-generation wireless broadband technology, Long-Term Evolution ("LTE"). Genius Brand Limited acquired a block of 30MHz spectrum, which will enable us to build a LTE network that will deliver higher data speeds and offer a range of multimedia services.

FIXED-LINE BUSINESS

Overview

Providing fixed-line telecommunications services locally and overseas since 1995 through Hutchison Global Communications Limited ("HGC"), we offer sophisticated fixed-line telecommunications solutions to corporate, international and carrier customers in Hong Kong and overseas, as well as comprehensive broadband, voice and IDD services to local residential customers.

We own one of the most extensive fibre-to-the-building ("FTTB") networks in Hong Kong. Comprising around 1 million kilometers of core optical-fibre cabling running through more than 5,000 kilometers of ducting, this infrastructure enables us to achieve a coverage of over 3,000 corporate and public buildings - meeting the needs of banks, governmental bodies, educational institutions, data centres and others.

Exemplifying HGC's standing in the local telecommunications industry, we are Hong Kong's leading optical-fibre carrier of land-based mobile traffic - known as backhaul - between switching centres and network cell sites run by mobile operators. In addition, our constantly-enhanced cross-border network linking Hong Kong to mainland China and our international network system address the requirements of submarine cable operators, carriers and multinational corporations.

In 2008, we launched the territory's first Hong Kong-Shenzhen Western Corridor optical-fibre cable system. This is HGC's fourth such cross-border routing and makes HGC the first player in Hong Kong to

integrate four cross-border routes with the networks of all three of mainland China's tier-1 telecommunications operators.

In 2004, HGC launched the world's first Inter-Autonomous System International Ethernet service, which has flourished into a very well-adopted facility in the international telecommunications arena.

International Business Division

Serving multinational corporations and telecommunications carriers via the International Business Division ("IBD"), HGC provides an advanced voice, data and IP network that links our home market with the rest of the world, as well as to carry traffic between internationally-dispersed geographies. We provide scalable capacity and advanced solutions to meet ever-increasing bandwidth demand.

The customer base of IBD includes telecommunications carriers, service providers and enterprises - all served via various sub-units.

Reaching around the world

Developing HGC as an international hub, our network reach has been extended to areas such as Indonesia, Malaysia, the Philippines, Singapore, Japan, South Korea, Taiwan, Vietnam, Thailand and Cambodia - and stretches to the United States of America and the United Kingdom via co-operation with carriers around the world.



• HGC unveiled new fibre optic cable system at Hong Kong-Shenzhen Western Corridor. Officiating at the ceremony included Mrs. Marion Lai, Director-General of OFTA, along with the senior management from China Telecom and HGC



• Supported Conexus Mobile Alliance to present new benefits for its member customers

This has involved positioning Hong Kong as a transit hub and enhancing the territory's standing as a geographical focal point, while providing network routings that span the globe via submarine and terrestrial cable facilities offering a high degree of resilience.

Providing world-class data solutions

Our services include International Private Leased Circuits ("IPLC"), Global Ethernet Private Line ("GEPL"), Virtual Private Line Service ("VPLS"), IP Virtual Private Network ("IPVPN"), IP transit, IP peering, backhaul capacity long-term lease and voice interconnect offerings. Our Internet network capacity has been expanded to more than 100 gigabits and involves peering with major Internet content providers.

Established in early 2009, the carrier-neutral HutchConnect platform in Hong Kong serves international telecommunications carriers with a one-stop-shop capacity management solution that handles myriad requirements.

During 2009, we co-operated with telecommunications operators that interconnect their submarine cable capacities with our HGC network in Hong Kong and overseas, in order to provide world-class connectivity solutions to corporations and wholesale carriers.

Capturing needs from multinational corporate customers, also launched during 2009 was the one-stop-shop Information and Communications Technologies ("ICT") solution to provide a consultancy-based service to corporations requiring support for implementation of applications, unified communications, network redundancy and backup, as well as round-the-clock monitoring to ensure business continuity.

Acclaimed as a high-quality voice and video carrier

In the voice space, HGC has established interconnections with more than 200 carriers and extended direct mobile connections with over 100 operators throughout more than 50 countries. In addition, a HGC international video-routing platform has been set up to connect with some 60 locations and 130 operators around the world.

Riding on the membership of the Conexus Mobile Alliance ("Conexus"), which was established with 11 mobile operations in Asia, HGC develops international roaming and corporate mobile services to enhance member customers' roaming experience. Conexus also achieves this by way of new applications, as well as product packages such as a data flat-rate plan. As one of Asia's biggest mobile alliances, Conexus addresses a total customer base of over 240 million mobile users.

HGC's Common International Platform ("CIP") links the mobile networks of the members of its parent company, Hutchison Whampoa Limited - while interconnecting with its own voice/video gateway - with the aim of providing globally-dispersed mobile operators with premium-grade voice services via an advanced international calling platform. This enables us to guarantee Caller Line Identification ("CLI") and offer a video-calling capability. Direct connection within CIP also enables end-to-end quality control of call and video calling.

Our IDD Buffet solution enables service providers to offer attractive monthly packages featuring unlimited IDD service to residential users. Now covering more than 20 countries, IDD Buffet represents a revolutionary change from the traditional per-minute charging formula applied by most carriers.



•HGC global network reach

Fibre-to-the-building network covers over

3,000
corporate and public buildings

Wholesale and Business Market Division

Pursuing a strategy that entails tailoring solutions to specific sectors, we identify the unique needs of our business customers to design comprehensive solutions that run over HGC's optical-fibre backbone.

Serving sophisticated needs of modern business

This sector-specific strategy empowers us to penetrate a wide range of industries such as professional services, logistics, media, as well as financial services and governmental communities. The Wholesale and Business Market Division serves customers via five units known as Corporate Market, Business Market, Wholesale Market, School Market and Data Centre Business.

Corporate market

Maintaining a strong presence in banking and finance, government and public sectors, we provide Metro Ethernet and high-speed data network services.

Working to an account management model, HGC provides total telecommunications solutions that utilise a range of technologies from traditional copper networks to fibre infrastructure - all according to the specific needs of the corporate world.

As well as providing basic connectivity and bandwidth, we strive to meet the diverse needs of our corporate and large enterprise customers by offering a range of specialised services. A prime example is Talk Central, a unified communications solution that brings all standard office communications together into one easy-to-manage interface.

In addition, HGC was the first player in Hong Kong to launch the Microsoft Exchange email-on-demand service as part of a standard business broadband package that helps derive cost and operational efficiencies. The service also offers built-in protection and data security features that ensure business continuity and regulatory compliance.



• Dedicated corporate sales team to serve the corporate market

- HGC delivers round-the-clock customer hotline service



Business market

HGC has developed a telecommunications solution consultancy approach for the small-to-medium enterprise (“SME”) market, which we serve via call-centre personnel skilled in cross-selling and generating customer loyalty for basic telephony, IDD and broadband services.

The call-centre operations have also been acted as an outsourcing provider for SMEs, such that customers are able to benefit from call-centre services to gather market intelligence, better manage the sales and support needs of their own customers. This extended service also represents a steadily developing revenue stream for the future.

Wholesale market

Backbone infrastructure made up of 100% optical-fibre enables us to command the largest share of Hong Kong market in providing backhaul services to local and international carriers.

As well as being able to rapidly upgrade leased lines serving cellular base stations to a scalable 10Mbps-100Mbps Fast Ethernet capability, HGC is well positioned to meet the terabit backhaul bandwidth needs of the near future that are being driven by upwardly-spiraling data usage.

School market

As the first local operator with an extensive fibre-to-the-school capability, HGC has been addressing the growing demand of primary and secondary institutions since 2003 and works to empower local education with state-of-the-art ICT.

In fact, an optical-fibre network able to reach the vast majority of local schools positions HGC well to support the Hong Kong Government's plans to roll out a large-scale eLearning operation. Schools have already been running video-conferencing application on HGC's network to facilitate cross-border working relationship among students, as well as virtual seminars. HGC's terrestrial school network is complemented by our 3reedom mobile broadband service, which provides wireless connectivity beyond the confines of classroom walls. In addition, HGC provides educational institutions with a 24/7 Managed Security service so that staff and students are able to go online without having to worry about viruses, malware, hacking attacks and malicious websites.

• Pioneered HD Education Collaboration Platform for local schools

Data centre business

We have been serving the data centre needs of local and international corporate customers, such as the banking and finance sector, since 2000 and now run facilities in Hong Kong Island and New Territories. A new operation scheduled to go live at Wong Chuk Hang in early 2010 will cover 20,000 square feet - expandable to 120,000 square feet - to the benefit of predominately financial services players and international enterprises. Our offer to the market includes basic co-location and facilities management offerings. We also field a dedicated team to provide value-added managed services and operational outsourcing offerings to address customer requirements in terms of efficiency and cost control.



• Network Operation Centre of HGC



• HGC provides high-speed broadband connection for Hong Kong households

Optical-fibre duct
cabling over

5,000 km

Consumer Market Division

Our Consumer Market Division provides a comprehensive range of services spanning local and IDD voice call service, a global interconnectivity experience and residential broadband service renowned for speedy access.

Speed and mobility

Riding on the edge of one of the most extensive FTTB networks in the territory, HGC is able to provide a range of high-speed broadband connection up to 100Mbps for Hong Kong households. In the last year, we witnessed a booming demand of consumer subscription and upgrade towards higher bandwidth with growing sophisticated usage on the Internet such as multimedia streaming, uploading, downloading, HD video viewing, as well as simultaneous multiple family member usage and multi-tasking.

On top of new acquisitions, we observed a strong will to upgrade to higher speed at contract renewals, hence an elevation to both our retention rate and ARPU. In 2009, our 50Mbps and 100Mbps subscriptions registered a robust increase compared to 2008.

On the other front, the flourishing emergence of new gadgets like smartphones and netbooks had lifted demand of broadband usage both on the move and within households. HGC consumer broadband stands out from the crowd in this respect by providing a modem with built-in Wi-Fi capability for high-speed customers so that their family members could enjoy wireless home broadband usage without worry for additional routers.

• Promotion of 100Mbps residential broadband service



• 3.0 Shop addresses the growing demand for mobile data and broadband

In addition, Wi-Fi is available to HGC subscribers even while out and about. With collaboration from a Wi-Fi service provider, HGC broadband customers are able to enjoy free Wi-Fi Internet access in shopping malls and throughout chains of outlets. An unlimited outdoor Wi-Fi plan is available to heavy users who spend much of their time on the move.

Channel and service expansion

In the year under review, HGC successfully expanded its exposure and sales channels in the marketplace. Other than 3Shops, prominent display was gained in ParknShop, Watsons and Fortress outlets. In all, over 100 additional retail sales points were established during the year, coupled with new 3.0 Shops, which opened to address mobile data and fixed broadband consumer demands.

Besides Internet connection, HGC also launched a series of infotainment services during 2009, including an attractive TVB PayVision full-programme bundle, a jetso-filled gaming site GAMEON and the biggest Chinese song fixed-mobile convergent music channel KKBOX. HGC will continue to look for and roll out unique and popular services in the years to come.



• Promotion of unlimited and free Wi-Fi Internet access

A future of expansion and development

Running a forefront telecoms business, HGC positioned itself as carriers' carrier. Expanding on a horizontal perspective, HGC aims to strengthen our cooperation with other international operators and increase our geographical coverage for telecommunications carriers, service providers and enterprises around the world. From a vertical expansion perspective, we strive to deliver high-value services to cope with emerging complexity in enterprise applications and apply the newest technology to engineer cost effective solutions for our customers.

Responding to surging demand for data service in the commercial arena, we expect backhaul revenues from local and international carriers to maintain momentum and represent a key driver for growth going forward. HGC will focus sharply on meeting demand for ever-more sophisticated services, such as in the field of fixed-mobile convergence, while crafting total

voice-and-data solutions that embrace bandwidth, hosting, Customer Premises Equipment ("CPE") and one-stop-shop support. We also plan to develop more off-the-shelf solutions to enable our SME customers to reap the full benefits of a new era of data connectivity.

At the same time, HGC will work to acquire corporate customers at home and abroad, partly by providing managed services that will enhance our ability to support higher-value services in terms of IT and systems integration.

In response to pressure on pricing caused by drastic competitor tactics in the consumer market, HGC will focus on affordable high-speed propositions to customers, alongside lower-speed options. This falls in line with our ongoing strategy of segmenting and demonstrating value-for-money when catering to differing needs.



- We continue to expand our foothold across the globe and steer the development of fixed-mobile convergence