

# Independent Auditor's Report

## To the Shareholders of Hutchison Telecommunications Hong Kong Holdings Limited

(incorporated in the Cayman Islands with limited liability)

### Opinion

What we have audited

The consolidated financial statements of Hutchison Telecommunications Hong Kong Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 155, which comprise:

- the consolidated and Company statements of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018, and of its consolidated profit and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill; and
- Revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Goodwill</b></p> <p><i>Refer to note 14 to the consolidated financial statements</i></p> <p>As at 31 December 2018, the Group had goodwill amounted to HK\$2,155 million.</p> <p>Goodwill with an indefinite useful life is subject to impairment assessments annually and when there is an indication of impairment.</p> <p>In carrying out the impairment assessments, significant judgements are required to estimate the future cash flows of the Group's telecommunications businesses and to determine the key assumptions, including the growth rate used in the cash flow projections and the EBITDA multiples used in determining the terminal values, and the discount rates applied to bring the future cash flows back to their present values.</p> <p>Based on the results of these impairment assessments conducted by the Group, it is believed that there is sufficient headroom and therefore there is no impairment of goodwill. This conclusion is based on the recoverable amounts exceeding the book amount of the cash generating units including goodwill and telecommunications related assets.</p> <p>The significant assumptions are disclosed in note 14 to the consolidated financial statements.</p>	<p>The procedures to evaluate the Group's assessments included:</p> <ul style="list-style-type: none"> <li>• Assessing the appropriateness of the valuation methodologies used;</li> <li>• Assessing the reasonableness of key assumptions and discount rates based on our knowledge of the business and industry;</li> <li>• Performing sensitivity analyses on the key assumptions where we flexed the growth rates and discount rates as these are the key assumptions against which the value-in-use calculations are most sensitive to; and</li> <li>• Testing source data on a sample basis to supporting evidence, such as approved budgets and available market data and considering the reasonableness of these budgets.</li> </ul> <p>We found the assumptions adopted in relation to the impairment assessments to be supportable and reasonable based on available evidence.</p>

**Key Audit Matter****How our audit addressed the Key Audit Matter****Revenue recognition**

*Refer to note 5 to the consolidated financial statements*

The Group recognised revenue of HK\$7,912 million from the provision of mobile telecommunications services and from hardware sales during the year ended 31 December 2018.

Significant effort was spent auditing the revenue recognised by the Group because the systems are complex and involve frequent changes in tariff structure. In addition, there is a large volume of transactions arising from a combination of different hardware or services sold, some of which are bundled transactions under contracts with customers, and these are processed through a number of different systems.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 using the modified retrospective approach. Significant management judgement is required to assess the relative standalone selling price of each performance obligation to allocate revenue to distinct goods or services identified in the contracts with customers.

The procedures performed in addressing the risk around the accuracy of revenue recognised included:

- Testing the IT environment in which billing, rating and other relevant support systems reside;
- Testing a sample of transaction records in the systems to the respective customer contracts, underlying invoices and cash receipts;
- Assessing the judgements exercised by the Group when allocating revenue to each performance obligation identified in the contracts with customers, by reference to the standalone selling price of each performance obligation and other observable data; and
- Evaluating and testing the new processes and controls with respect to the application of IFRS 15, including the key controls over the accuracy of calculation and allocation of revenue to each performance obligation identified in the contracts with customers.

We found the revenue recorded to be supportable by the available evidence.

**Other Information**

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and that comply with the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Sung Lai, Arthur.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 February 2019