

Notes to the Condensed Consolidated Interim Financial Report

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 Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands.

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

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 8 May 2009 and whose American depository shares, each representing ownership of 15 shares, are eligible for trading in the United States only in the over-the-counter market.

This unaudited condensed consolidated interim financial report ("interim financial report") has been approved for issuance by the Board of Directors on 12 August 2009.

2 Basis of preparation

This interim financial report is for the six months ended 30 June 2009. It has been prepared in accordance with International Accounting Standard 34 "Interim financial reporting". This interim financial report should be read in conjunction with the Accountant's Report set out in Appendix I to the Company's Listing Document dated 20 April 2009.

As at 30 June 2009, the Group's current liabilities exceeded its current assets by approximately HK\$6,484 million. The Group's future funding requirements will be met through a revolving credit and term loan facility of HK\$5,200 million from a group of international commercial banks which is available up to 30 June 2010. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, the Directors consider that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, the Directors have prepared this interim financial report on a going concern basis.

3 Significant accounting policies

In the current period, the Group has adopted all of the new and revised standards, amendments and interpretations that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2009. The adoption of these new and revised standards, amendments and interpretations has resulted in certain changes to the presentation of this interim financial report.

Except as described below, the accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the Accountant's Report set out in Appendix I to the Company's Listing Document dated 20 April 2009.

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3 Significant accounting policies (continued)

(a) Customer acquisition and retention costs

Telecommunications customer acquisition and retention costs comprise the net costs to acquire and retain telecommunications customers.

In the prior years, these costs to acquire and retain customers on contracts with early termination penalty clauses were capitalised and amortised on a straight-line basis through amortisation expense in the income statement over the minimum enforceable contractual period. Having undertaken a comprehensive review of the policies of other businesses operating in the telecommunications sector particularly those operating in Europe, with effect from 1 January 2009, the Group has changed its policy to expense these costs in operating expenses as the costs are incurred. The Group believes that this change will bring our policy in line with other major telecommunications companies, provide greater comparability with such businesses and align more closely our profit and loss performance with our cash flow, and will therefore provide reliable and more relevant information to shareholders and other users of the financial statements. Comparative information has been restated to reflect this change in policy.

(i) Effect on the condensed consolidated income statement for the six months ended 30 June 2008

	Before change in accounting policy HK\$ millions	Effect of change in accounting policy HK\$ millions	Restated HK\$ millions
Turnover	3,783	-	3,783
Cost of inventories sold	(138)	-	(138)
Staff costs	(296)	-	(296)
Depreciation and amortisation	(966)	278	(688)
Other operating expenses	(1,962)	(281)	(2,243)
Operating profit	421	(3)	418
Interest income	9	-	9
Interest and other finance costs	(105)	-	(105)
Profit before taxation	325	(3)	322
Taxation	(47)	-	(47)
Profit for the period	278	(3)	275
Attributable to:			
Equity holders of the Company	253	(6)	247
Minority interest	25	3	28
	278	(3)	275
Earnings per share attributable to equity holders of the Company (expressed in HK cents per share):			
- basic	5.26	(0.13)	5.13
- diluted	5.26	(0.13)	5.13

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3 Significant accounting policies (Continued)

(a) Customer acquisition and retention costs (Continued)

(ii) Effect on the condensed consolidated statement of financial position as at 31 December 2008

	Previously reported HK\$ millions	Effect of change in accounting policy HK\$ millions	Restated HK\$ millions
ASSETS			
Non-current assets			
Property, plant and equipment	9,557	-	9,557
Goodwill	4,478	25	4,503
Other intangible assets	1,143	(758)	385
Other non-current assets	1,377	-	1,377
Deferred tax assets	368	-	368
Investments in jointly controlled entities	88	-	88
Total non-current assets	17,011	(733)	16,278
Current assets			
Cash and cash equivalents	272	-	272
Trade receivables and other current assets	1,137	-	1,137
Inventories	181	-	181
Total current assets	1,590	-	1,590
Total assets	18,601	(733)	17,868
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	-	-	-
Reserves	(2,394)	(555)	(2,949)
	(2,394)	(555)	(2,949)
Minority interest	(443)	(169)	(612)
Total equity	(2,837)	(724)	(3,561)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	88	(8)	80
Other non-current liabilities	641	-	641
Total non-current liabilities	729	(8)	721
Current liabilities			
Trade and other payables	3,062	-	3,062
Payable to a related company	12,418	-	12,418
Borrowings	5,220	-	5,220
Current income tax liabilities	9	(1)	8
Total current liabilities	20,709	(1)	20,708
Total liabilities	21,438	(9)	21,429
Total equity and liabilities	18,601	(733)	17,868
Net current liabilities	(19,119)	1	(19,118)
Total assets less current liabilities	(2,108)	(732)	(2,840)

Notes to the Condensed Consolidated Interim Financial Report

3 Significant accounting policies (Continued)

(a) Customer acquisition and retention costs (Continued)

(iii) Estimated effect on the condensed consolidated income statement for the six months ended 30 June 2009

	Estimated effect of change in accounting policy - increase/(decrease) in profit attributable to equity holders of the Company HK\$ millions
Turnover	-
Cost of inventories sold	-
Staff costs	-
Depreciation and amortisation	347
Other operating expenses	(420)
Operating profit	(73)
Interest income	-
Interest and other finance costs	-
Share of results of jointly controlled entities	-
Profit before taxation	(73)
Taxation	1
Profit for the period	(72)
Attributable to:	
Equity holders of the Company	(56)
Minority interest	(16)
	(72)
Earnings per share attributable to equity holders of the Company (expressed in HK cents per share):	
- basic	(1.16)
- diluted	(1.16)

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3 Significant accounting policies (Continued)

(a) Customer acquisition and retention costs (Continued)

(iv) Estimated effect on the condensed consolidated statement of financial position as at 30 June 2009

	Estimated effect of change in accounting policy - increase/(decrease) in respective items HK\$ millions
ASSETS	
Non-current assets	
Property, plant and equipment	-
Goodwill	25
Other intangible assets	(832)
Other non-current assets	-
Deferred tax assets	-
Investments in jointly controlled entities	-
Total non-current assets	(807)
Current assets	
Cash and cash equivalents	-
Trade receivables and other current assets	-
Inventories	-
Total current assets	-
Total assets	(807)
EQUITY	
Capital and reserves attributable to equity holders of the Company	
Share capital	-
Reserves	(611)
	(611)
Minority interest	(185)
Total equity	(796)
LIABILITIES	
Non-current liabilities	
Deferred tax liabilities	(9)
Other non-current liabilities	-
Total non-current liabilities	(9)
Current liabilities	
Trade and other payables	-
Payable to a related company	-
Borrowings	-
Current income tax liabilities	(2)
Total current liabilities	(2)
Total liabilities	(11)
Total equity and liabilities	(807)
Net current liabilities	2
Total assets less current liabilities	(805)

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3 Significant accounting policies (continued)

(b) Share-based payments

In June 2009, share options were granted under the Company's share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4 Turnover

Turnover comprises revenues from the provision of mobile telecommunications services; handset and accessory sales and the provision of fixed-line telecommunications services. An analysis of turnover is as follows:

	Six months ended 30 June	
	2009 HK\$ millions	2008 HK\$ millions
Mobile telecommunications services	2,331	2,270
Fixed-line telecommunications services	1,450	1,370
Telecommunications products	316	143
	4,097	3,783

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5 Segment information

The Group is organised into two business 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 operating profit. The segment information on turnover and operating profit and total assets agreed to the aggregate information in this interim financial report. As such, no reconciliation between the segment information and the aggregate information in this interim financial report is presented.

For the six months ended 30 June 2009

	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Turnover	2,647	1,623	-	(173)	4,097
Operating costs	(2,118)	(1,057)	(46)	173	(3,048)
Depreciation and amortisation	(334)	(316)	-	-	(650)
Operating profit/(loss)	195	250	(46)	-	399
Total assets	7,050	11,017	12,423	(12,558)	17,932
Capital expenditures incurred during the period (including property, plant and equipment)	227	333	-	-	560

For the six months ended 30 June 2008

	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Turnover	2,413	1,516	-	(146)	3,783
Operating costs	(1,780)	(1,002)	(41)	146	(2,677)
Depreciation and amortisation	(372)	(316)	-	-	(688)
Operating profit/(loss)	261	198	(41)	-	418
Total assets	7,429	14,266	3,870	(7,258)	18,307
Capital expenditures incurred during the period (including property, plant and equipment)	229	142	-	-	371

Notes to the Condensed Consolidated Interim Financial Report

6 Interest and other finance costs, net

	Six months ended 30 June	
	2009 HK\$ millions	2008 HK\$ millions
Interest income	-	9
Interest and other finance costs:		
Bank loans repayable within 5 years	(25)	(62)
Notional non-cash interest accretion (Note)	(38)	(38)
Guarantee and other finance fees	(10)	(5)
	(73)	(105)
Interest and other finance costs, net	(73)	(96)

Note: Notional non-cash interest accretion represents the notional adjustments to accrete the carrying amount of certain obligations recognised in the 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	2009 Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	2008 Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	-	34	34	-	42	42
Outside Hong Kong	4	-	4	5	-	5
	4	34	38	5	42	47

Hong Kong profits tax has been provided for at the rate of 16.5% (30 June 2008: 16.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided for at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits less available tax losses. The change in average applicable tax rate is caused by a change in the profitability of the Group's subsidiaries in respective countries.

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8 Earnings per share

The calculation of basic earnings per share based on profit attributable to equity holders of the Company of approximately HK\$256 million (30 June 2008: HK\$247 million) and on 4,814,346,208 ordinary shares issued upon the capitalisation of the payable to Hutchison Telecommunications International (Cayman) Holdings Limited ("HTI Cayman"), the former immediate holding company, as described in Note 14, as if such shares had been outstanding throughout the six months ended 30 June 2009 (30 June 2008: same).

For the period ended 30 June 2008, diluted earnings per share are equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding. The diluted earnings per share for the period ended 30 June 2009 are based on 4,814,346,208 ordinary shares in issue by adjusting the weighted average number of 50,541 ordinary shares deemed to be issued assuming the exercise of the share options.

9 Dividends

An interim dividend of 1.12 HK cents per share or approximately HK\$54 million (30 June 2008: Nil) was recommended by the Board of Directors.

10 Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$560 million (30 June 2008: HK\$371 million). Property, plant and equipment with a net book value of HK\$3 million (30 June 2008: HK\$5 million) was disposed of during the period, resulting in a loss on disposal of HK\$2 million (30 June 2008: HK\$1 million).

11 Other non-current assets

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Prepayments	1,296	1,332
Deposits	44	45
	1,340	1,377

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12 Cash and cash equivalents

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Cash at bank and on hand	39	42
Short-term bank deposits	237	230
	276	272

13 Trade receivables and other current assets

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 Carrier or Corporate customers based on the individual commercial terms.

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Trade receivables	1,131	1,017
Less: Provision for doubtful debts	(206)	(165)
Trade receivables, net of provision (Note (a))	925	852
Other receivables	87	56
Prepayments	147	154
Loan to the partner of a jointly controlled entity	-	75
	1,159	1,137

(a) Trade receivables, net of provision

The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
0-30 days	369	364
31-60 days	184	185
61-90 days	96	86
Over 90 days	276	217
	925	852

The carrying value of trade receivables approximates to their fair values. There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

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14 Share capital

(a) Share capital of the Company

(i) Authorised share capital of the Company

As at 31 December 2008, the authorised share capital of the Company comprised of 50,000 ordinary shares of US\$1 each.

On 6 April 2009, the Company's authorised share capital was increased by HK\$2,500 million by the creation of 10 billion shares of HK\$0.25 each. 32 shares of HK\$0.25 each were issued at par for cash. On the same date, the original issued share of US\$1 was repurchased by the Company at par; and the original authorised share capital of US\$50,000 was cancelled.

(ii) Issued share capital of the Company

	Ordinary share of US\$1 each		Ordinary share of HK\$0.25 each	
	Number of shares	Issued and fully paid HK\$ millions	Number of shares	Issued and fully paid HK\$ millions
As at 1 January 2008 and 31 December 2008	1	-	-	-
Issued during the period	-	-	4,814,346,208	1,204
Repurchased and cancelled during the period	(1)	-	-	-
As at 30 June 2009	-	-	4,814,346,208	1,204

On 6 April 2009, the Company entered into an agreement with HTI Cayman that, subject to the Stock Exchange's approval of the spin-off of the Company and the Listing Committee of the Stock Exchange granting approval for the listing of the shares of the Company on the Main Board of the Stock Exchange, 4,814,346,176 shares of the Company would be allotted and issued, credited as fully paid, to HTI Cayman as consideration for the capitalisation of the payable to this company amounting to approximately HK\$12,418 million. The above conditions were fulfilled and the aforesaid shares were issued on 7 May 2009. As a result, HK\$1,204 million and HK\$11,214 million were recognised as share capital and share premium during the period ended 30 June 2009, respectively.

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14 Share capital (continued)

(b) Share options of the Company

On 6 April 2009, the Company's share option scheme was approved by the Board of Directors of the Company and approved by the shareholders of Hutchison Whampoa Limited at an extraordinary general meeting on 21 May 2009. The Board of Directors may, under the share option scheme, grant options to employees, directors or non-executive directors 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 options granted
As at 1 January 2009	-	-
Granted on 1 June 2009	1	4,750,000
As at 30 June 2009	1	4,750,000

The exercise price of the options granted is equal to the market price of the shares on the date of grant. The share options are exercisable, subject to the vesting schedule, commencing on the date on which the options are deemed to have been granted and ending on a date which is earlier of the date on which the options lapse and the date falling ten years from the date of grant of the options. As at 30 June 2009, out of the 4,750,000 outstanding share options, 1,583,333 share options were exercisable.

The fair value of options granted during the period determined using the Black-Scholes model was approximately HK\$0.27 each. The significant inputs into the model were an expected volatility of 49%, an expected dividend yield of 5.9%, an expected option life up to 6 years and an annual risk-free interest rate of 1.65%.

15 Borrowings

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Bank loans	4,795	5,220

As at 31 December 2008, total borrowings of HK\$5,220 million was guaranteed by Hutchison Telecommunications International Limited ("HTIL") and was in relation to a HK\$9,000 million revolving credit facility agreement with a group of international commercial banks, which jointly entered into by Hutchison Telephone Company Limited ("HTCL"), a subsidiary of the Company, and HTIL.

On 8 May 2009, the Company and HTCL, jointly entered into a HK\$5,200 million revolving credit facility agreement with a group of international commercial banks to refinance the then existing borrowings. As at 30 June 2009, total outstanding borrowings in relation to this facility is repayable on 30 June 2010.

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16 Other non-current liabilities

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Non-current licence fees liabilities	503	474
Pension obligations	82	81
Accrued expenses and other payables	92	86
	677	641

17 Trade and other payables

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Trade payables (Note (a))	344	385
Accrued expenses and other payables	1,551	1,398
Deferred revenue	1,259	1,207
Current portion of licence fees liabilities	76	72
	3,230	3,062

(a) Trade payables

The ageing analysis of trade payables is as follows:

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
0-30 days	90	144
31-60 days	54	60
61-90 days	30	28
Over 90 days	170	153
	344	385

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18 Cash generated from operations

	Six months ended 30 June	
	2009 HK\$ millions	2008 HK\$ millions
Cash flows from operating activities		
Profit before taxation	318	322
Adjustments for:		
- Interest income	-	(9)
- Interest and other finance costs	73	105
- Depreciation and amortisation	650	688
- Share of results of jointly controlled entities	8	-
- Loss on disposal of property, plant and equipment	2	1
- Share-based payments in respect of share option scheme	1	-
Changes in working capital		
- Inventories	64	(1)
- Trade receivables and other current assets	(91)	(93)
- Trade and other payables	175	53
Cash generated from operations	1,200	1,066

19 Contingent liabilities

As at 30 June 2009, the Group had contingent liabilities in respect of the following:

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Performance guarantees	586	512
Financial guarantees	11	39
	597	551

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20 Commitments

Outstanding commitments of the Group not provided for in this interim financial report are as follows:

(a) Capital commitments

	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Property, plant and equipment		
Contracted but not provided for	494	763
Authorised but not contracted for	1,083	1,397
	1,577	2,160
Investment in a jointly controlled entity		
Contracted but not provided for	5	16

(b) Operating lease commitments

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

	Buildings		Other assets	
	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions	As at 30 June 2009 HK\$ millions	As at 31 December 2008 HK\$ millions
Not later than 1 year	308	288	168	142
Later than 1 year and not later than 5 years	176	182	70	78
Later than 5 years	1	1	-	-
	485	471	238	220

(c) Acquisition of telecommunications licence for third generation mobile services

In October 2001, a subsidiary of the Company was issued a 3G licence in the 1900-2170 MHz radio spectrum for Hong Kong ("Licence") for a duration of 15 years. For the first five years of the term of the Licence, fixed annual licence fees were payable. Beginning from the sixth year of the Licence, variable licence fees payable amount to 5% of network turnover (as defined in the Licence) in respect of the relevant year; or the Appropriate Fee (as defined in the Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fees liabilities.