



# 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 are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

This unaudited condensed consolidated interim financial report ("interim financial report") has been approved for issuance by the Board of Directors on 2 August 2010.

## 2 Basis of preparation

This interim financial report for the six months ended 30 June 2010 has been prepared in accordance with International Accounting Standard 34 "Interim financial reporting". This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards.

As at 30 June 2010, the Group's current liabilities exceeded its current assets by approximately HK\$2,223 million. The Group's future funding requirements can be met through a revolving and term credit facility of HK\$5,000 million from a group of international commercial banks which is available up to 2 December 2012. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, this interim financial report has been prepared on a going concern basis.

## 3 Significant accounting policies

This interim financial report has been prepared under the historical cost convention. The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in 2009 annual financial statements and the Group has adopted all the new and revised standards, amendments and interpretations that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2010. The adoption of these new and revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group.



## 4 Critical accounting estimates and assumptions

With effect from 1 January 2010, the Group has revised the estimated useful lives of 2G network equipment in Hong Kong from 10 to 15 years or up to 31 December 2010 whichever is shorter, to 10 to 15 years or up to 31 December 2013 whichever is shorter.

The effect of the change in estimated useful lives has been recognised prospectively. If the Group had continued with the useful lives as estimated during the previous year, the depreciation expense charged to the condensed consolidated income statement for the current period would have been higher by approximately HK\$90 million with a corresponding decrease in the carrying value of property, plant and equipment. The depreciation charge of the relevant property, plant and equipment recognised during the current half-year period was approximately HK\$43 million. The depreciation expense for the relevant 2G network equipment in Hong Kong to be recorded in future years up to 2013 will be of similar or lower magnitude.

## 5 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	
	2010 HK\$ millions	2009 HK\$ millions
Mobile telecommunications services	2,516	2,331
Fixed-line telecommunications services	1,457	1,450
Telecommunications products	310	316
	<b>4,283</b>	<b>4,097</b>



## 6 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 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 2010

	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Turnover	2,831	1,630	-	(178)	4,283
Operating costs	(2,255)	(1,087)	(42)	177	(3,207)
Depreciation and amortisation	(215)	(317)	-	-	(532)
Operating profit/(loss)	361	226	(42)	(1)	544
Capital expenditures incurred during the period (including property, plant and equipment)	251	238	-	(1)	488

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
Capital expenditures incurred during the period (including property, plant and equipment)	227	333	-	-	560



## 7 Interest and other finance costs, net

	Six months ended 30 June	
	2010 HK\$ millions	2009 HK\$ millions
Interest income:		
Interest income from loan to a jointly controlled entity	2	-
Interest and other finance costs:		
Bank loans repayable within 5 years	(23)	(25)
Notional non-cash interest accretion (Note)	(33)	(38)
Guarantee and other finance fees	(8)	(10)
	(64)	(73)
Interest and other finance costs, net	(62)	(73)

Note: 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.

## 8 Taxation

	Six months ended 30 June					
	Current taxation HK\$ millions	2010 Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	2009 Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	-	32	32	-	34	34
Outside Hong Kong	3	-	3	4	-	4
	3	32	35	4	34	38

Hong Kong profits tax has been provided for at the rate of 16.5% (30 June 2009: 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.



## 9 Earnings per share

The calculation of basic earnings per share is based on profit attributable to equity holders of the Company of approximately HK\$361 million (30 June 2009: HK\$256 million) and on the weighted average number of 4,814,427,700 (30 June 2009: 4,814,346,208) ordinary shares in issue during the period.

The diluted earnings per share for the period ended 30 June 2010 are calculated by adjusting the weighted average number of 4,814,427,700 (30 June 2009: 4,814,346,208) ordinary shares in issue by the weighted average number of 1,426,489 (30 June 2009: 50,541) ordinary shares deemed to be issued assuming the exercise of the share options.

## 10 Dividends

	Six months ended 30 June	
	2010	2009
Interim dividend, proposed (HK\$ millions)	160	54
Interim dividend per share, proposed (HK cents)	3.32	1.12

In addition, final dividend in respect of year 2009 of HK cents 6.16 per share totalling HK\$297 million was approved and paid during the six months ended 30 June 2010.

## 11 Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$488 million (30 June 2009: HK\$560 million). Property, plant and equipment with a net book value of HK\$3 million (30 June 2009: HK\$3 million) was disposed of during the period, resulting in an insignificant loss (30 June 2009: loss of HK\$2 million).

## 12 Other non-current assets

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Prepayments	1,231	1,286
Non-current deposits	43	42
	1,274	1,328



### 13 Cash and cash equivalents

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Cash at banks and in hand	54	40
Short-term bank deposits	119	228
	<b>173</b>	<b>268</b>

### 14 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 individual commercial terms.

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Trade receivables	1,064	996
Less: Provision for doubtful debts	(212)	(185)
Trade receivables, net of provision (Note (a))	<b>852</b>	<b>811</b>
Other receivables	96	105
Prepayments	178	169
	<b>1,126</b>	<b>1,085</b>

#### (a) Trade receivables, net of provision

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:		
0 - 30 days	456	419
31 - 60 days	177	176
61 - 90 days	83	85
Over 90 days	136	131
	<b>852</b>	<b>811</b>

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



## 15 Share capital

### (a) Share capital of the Company

#### (i) Authorised share capital of the Company

The authorised share capital of the Company comprises 10 billion shares of HK\$0.25 each (31 December 2009: Same).

#### (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 2009	1	-	-	-
Issued during the year	-	-	4,814,346,208	1,204
Repurchased and cancelled during the year	(1)	-	-	-
As at 31 December 2009	-	-	<b>4,814,346,208</b>	<b>1,204</b>
Issuance of shares arising from exercise of employee share options (Note 15(b))	-	-	250,000	-
As at 30 June 2010	-	-	<b>4,814,596,208</b>	<b>1,204</b>



## 15 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 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	1	4,750,000
As at 31 December 2009	1	4,750,000
Exercised	1	(250,000)
As at 30 June 2010	1	4,500,000

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). Share options exercised in the first six months of 2010 resulted in 250,000 ordinary shares of HK\$0.25 each being issued at a weighted average exercise price of HK\$1 each. The related weighted average share price at the date of exercise was HK\$1.61 per share.

As at 30 June 2010, 2,916,666 (31 December 2009: 3,166,666) share options were exercisable.

## 16 Borrowings

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Bank loans, unsecured	3,702	4,358





## 17 Other non-current liabilities

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Non-current licence fees liabilities	477	450
Pension obligations	43	43
Accrued expenses and other payables	103	102
	<b>623</b>	<b>595</b>

## 18 Trade and other payables

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Trade payables (Note (a))	389	320
Other payables and accruals	1,961	1,689
Deferred revenue	1,189	1,227
Current portion of licence fees liabilities	86	81
	<b>3,625</b>	<b>3,317</b>

### (a) Trade payables

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
The ageing analysis of trade payables is as follows:		
0 - 30 days	116	69
31 - 60 days	60	44
61 - 90 days	34	26
Over 90 days	179	181
	<b>389</b>	<b>320</b>



## 19 Cash generated from operations

	Six months ended 30 June	
	2010 HK\$ millions	2009 HK\$ millions
Cash flows from operating activities		
Profit before taxation	461	318
Adjustments for:		
- Interest income	(2)	-
- Interest and other finance costs	64	73
- Depreciation and amortisation	532	650
- Share of results of jointly controlled entities	21	8
- Loss on disposal of property, plant and equipment	-	2
- Share-based payments in respect of share option scheme	-	1
Changes in working capital:		
- Trade receivables and other assets	(35)	(91)
- Inventories	48	64
- Trade and other payables	291	175
Cash generated from operations	1,380	1,200

## 20 Contingent liabilities

The Group had contingent liabilities in respect of the following:

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Performance guarantees	641	637
Financial guarantees	13	16
	654	653



## 21 Commitments

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

### (a) Capital commitments

	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Property, plant and equipment		
Contracted but not provided for	595	673
Authorised but not contracted for	239	635
	834	1,308
Investment in a jointly controlled entity		
Contracted but not provided for	-	6

### (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 2010 HK\$ millions	As at 31 December 2009 HK\$ millions	As at 30 June 2010 HK\$ millions	As at 31 December 2009 HK\$ millions
Not later than one year	289	286	178	148
Later than one year and not later than five years	136	133	66	72
Later than five years	-	1	-	-
	425	420	244	220



## 21 Commitments (Continued)

### (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.