

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") is presented in Hong Kong dollars ("HK\$"), unless otherwise stated. This interim financial report has been approved for issuance by the Board of Directors on 1 August 2011.

2 Basis of preparation

This interim financial report for the six months ended 30 June 2011 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 2010, which have been prepared in accordance with International Financial Reporting Standards.

As at 30 June 2011, the current liabilities of the Group exceeded its current assets by approximately HK\$2,528 million. Included in the current liabilities were non-refundable customer prepayments of HK\$1,004 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\$1,524 million. The future funding requirements of the Group are expected to be met through the cash flows generated from operating activities and the drawdown of the revolving and term credit facility of HK\$5,000 million available from a group of international commercial banks up to 2 December 2012. As at 30 June 2011, the undrawn revolving and term credit facility amounted to approximately HK\$1,071 million. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, management believes that 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 2010 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 2011. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group.

4 Turnover

Turnover comprises revenues from provision of mobile telecommunications services, sales of handsets and accessories and provision of fixed-line telecommunications services. An analysis of turnover is as follows:

	Six months ended 30 June	
	2011 HK\$ millions	2010 HK\$ millions
Mobile telecommunications services	2,676	2,516
Fixed-line telecommunications services	1,468	1,457
Telecommunications products	1,874	310
	6,018	4,283

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 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 2011

	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Turnover	4,553	1,653	-	(188)	6,018
Operating costs	(3,775)	(1,134)	(54)	188	(4,775)
Depreciation and amortisation	(241)	(321)	-	1	(561)
Operating profit/(loss)	537	198	(54)	1	682
Capital expenditures incurred during the period (property, plant and equipment)	259	205	-	-	464

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 (property, plant and equipment)	251	238	-	(1)	488

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6 Interest and other finance costs, net

	Six months ended 30 June	
	2011 HK\$ millions	2010 HK\$ millions
Interest income:		
Interest income from loan to a jointly controlled entity	2	2
Interest and other finance costs:		
Bank loans repayable within 5 years	(23)	(23)
Notional non-cash interest accretion (Note)	(31)	(33)
Guarantee and other finance fees	(8)	(8)
	(62)	(64)
Less: Amounts capitalised on qualifying assets	5	-
	(57)	(64)
Interest and other finance costs, net	(55)	(62)

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.

7 Taxation

	Six months ended 30 June					
	2011			2010		
	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	-	24	24	-	32	32
Outside Hong Kong	4	-	4	3	-	3
	4	24	28	3	32	35

Hong Kong profits tax has been provided for at the rate of 16.5% (30 June 2010: 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.

8 Earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of the Company of approximately HK\$494 million (30 June 2010: HK\$361 million) and on the weighted average number of 4,817,193,225 (30 June 2010: 4,814,427,700) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2011 is calculated by adjusting the weighted average number of 4,817,193,225 (30 June 2010: 4,814,427,700) ordinary shares in issue with the weighted average number of 1,150,816 (30 June 2010: 1,426,489) ordinary shares deemed to be issued assuming the exercise of the share options.

9 Dividends

	Six months ended 30 June	
	2011	2010
Interim dividend, proposed (HK\$ millions)	249	160
Interim dividend per share, proposed (HK cents)	5.16	3.32

In addition, final dividend in respect of year 2010 of 6.83 HK cents per share (30 June 2010: 6.16 HK cents per share in respect of year 2009) totalling HK\$329 million (30 June 2010: HK\$297 million) was approved and paid during the six months ended 30 June 2011.

10 Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$464 million (30 June 2010: HK\$488 million). Property, plant and equipment with a net book value of HK\$47 million (30 June 2010: HK\$3 million) was disposed of during the period, resulting in a gain of HK\$5 million (30 June 2010: Nil).

11 Other intangible assets

During the period, the Group acquired the radio spectrum in the 900MHz band with a cost of HK\$1,080 million for provision of mobile telecommunications services in Hong Kong for a period of 15 years.

12 Other non-current assets

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Prepayments	1,220	1,185
Non-current deposits	44	42
	1,264	1,227

13 Cash and cash equivalents

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Cash at banks and in hand	133	65
Short-term bank deposits	87	115
	220	180

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 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Trade receivables	1,546	1,399
Less: Provision for doubtful debts	(230)	(197)
Trade receivables, net of provision (Note (a))	1,316	1,202
Other receivables	126	106
Prepayments and deposits	251	189
	1,693	1,497

14 Trade receivables and other current assets (Continued)

(a) Trade receivables, net of provision

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:		
0 - 30 days	779	677
31 - 60 days	209	200
61 - 90 days	104	103
Over 90 days	224	222
	1,316	1,202

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) Authorised share capital of the Company

The authorised share capital of the Company comprises 10 billion shares of HK\$0.25 each (31 December 2010: Same).

(b) Issued share capital of the Company

	Ordinary share of HK\$0.25 each	
	Number of shares	Issued and fully paid HK\$ millions
As at 1 January 2010	4,814,346,208	1,204
Issuance of shares arising from exercise of employee share options (Note (c))	1,410,000	-
As at 31 December 2010	4,815,756,208	1,204
As at 1 January 2011	4,815,756,208	1,204
Issuance of shares arising from exercise of employee share options (Note (c))	2,250,000	1
As at 30 June 2011	4,818,006,208	1,205

15 Share capital (continued)

(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
As at 1 January 2010	1	4,750,000
Exercised	1	(1,410,000)
As at 31 December 2010	1	3,340,000
As at 1 January 2011	1	3,340,000
Exercised	1	(2,250,000)
As at 30 June 2011	1	1,090,000

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 during the six months ended 30 June 2011 resulted in 2,250,000 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\$2.68 per share.

As at 30 June 2011, 1,090,000 (31 December 2010: 3,340,000) share options were exercisable.

16 Borrowings

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Bank loans, unsecured	3,929	3,566

17 Other non-current liabilities

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Non-current licence fees liabilities	439	414
Pension obligations	27	27
Accrued expenses	106	105
	572	546

18 Trade and other payables

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Trade payables (Note (a))	429	383
Other payables and accruals	3,190	2,490
Deferred revenue	1,004	1,101
Current portion of licence fees liabilities	95	90
	4,718	4,064

(a) Trade payables

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
The ageing analysis of trade payables is as follows:		
0 - 30 days	168	123
31 - 60 days	36	41
61 - 90 days	43	37
Over 90 days	182	182
	429	383

19 Cash generated from operations

	Six months ended 30 June	
	2011 HK\$ millions	2010 HK\$ millions
Cash flows from operating activities		
Profit before taxation	628	461
Adjustments for:		
- Interest income (Note 6)	(2)	(2)
- Interest and other finance costs (Note 6)	57	64
- Depreciation and amortisation	561	532
- Gain on disposal of property, plant and equipment	(5)	-
- Share of results of jointly controlled entities	(1)	21
Changes in working capital:		
- Trade receivables and other assets	(229)	(35)
- Inventories	(50)	48
- Trade and other payables	647	291
Cash generated from operations	1,606	1,380

20 Contingent liabilities

The Group had contingent liabilities in respect of the following:

	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
	Performance guarantees	742
Financial guarantees	12	12
	754	704

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 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Property, plant and equipment		
Contracted but not provided for	757	647
Authorised but not contracted for	227	741
	984	1,388
Investments in jointly controlled entities		
Authorised but not contracted for	145	-

(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 2011 HK\$ millions	As at 31 December 2010 HK\$ millions	As at 30 June 2011 HK\$ millions	As at 31 December 2010 HK\$ millions
Not later than one year	302	279	136	139
Later than one year but not later than five years	225	140	40	54
Later than five years	-	-	10	-
	527	419	186	193

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 of radio spectrum in the 1900-2170 MHz band for Hong Kong ("Licence") for a period 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.