

# 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 (the "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 2012.

## 2 Basis of preparation

This interim financial report for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with International Financial Reporting Standards.

As at 30 June 2012, the current liabilities of the Group exceeded its current assets by approximately HK\$2,304 million. Included in the current liabilities were non-refundable customer prepayments of HK\$876 million which will gradually reduce over the contract terms of relevant subscriptions through delivery of services. 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\$5,500 million available from a group of international commercial banks up to 14 June 2015. As at 30 June 2012, the undrawn revolving and term credit facility amounted to approximately HK\$1,725 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 2011 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 2012. 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 telecommunications hardware and provision of fixed-line telecommunications services. An analysis of turnover is as follows:

	<b>Six months ended 30 June</b>	
	<b>2012</b> HK\$ millions	2011 HK\$ millions
Mobile telecommunications services	<b>2,730</b>	2,676
Fixed-line telecommunications services	<b>1,491</b>	1,468
Telecommunications hardware	<b>2,509</b>	1,874
	<b>6,730</b>	6,018

## 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.

	Six months ended 30 June 2012				
	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Turnover	5,241	1,725	-	(236)	6,730
Operating costs	(4,249)	(1,215)	(56)	236	(5,284)
Depreciation and amortisation	(317)	(328)	-	-	(645)
Operating profit/(loss)	675	182	(56)	-	801
Other information: Additions to property, plant and equipment	272	295	-	-	567
Additions to other intangible assets	151	-	-	-	151

	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
Other information: Additions to property, plant and equipment	259	205	-	-	464
Additions to other intangible assets	1,080	-	-	-	1,080

## 6 Interest and other finance costs, net

	Six months ended 30 June	
	2012 HK\$ millions	2011 HK\$ millions
Interest income:		
Interest income from jointly controlled entities	5	2
Interest and other finance costs:		
Bank loans	(25)	(23)
Notional non-cash interest accretion <i>(Note)</i>	(38)	(31)
Guarantee and other finance fees	(16)	(8)
	(79)	(62)
Less: Amounts capitalised on qualifying assets	2	5
	(77)	(57)
Interest and other finance costs, net	(72)	(55)

*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					
	2012			2011		
	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	-	21	21	-	24	24
Outside Hong Kong	2	-	2	4	-	4
	2	21	23	4	24	28

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2011: 16.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided 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\$568 million (30 June 2011: HK\$494 million) and on the weighted average number of 4,818,241,922 (30 June 2011: 4,817,193,225) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2012 is calculated by adjusting the weighted average number of 4,818,241,922 (30 June 2011: 4,817,193,225) ordinary shares in issue with the weighted average number of 598,512 (30 June 2011: 1,150,816) ordinary shares deemed to be issued assuming the exercise of the share options.

## 9 Dividends

	Six months ended 30 June	
	2012	2011
Interim dividend (HK\$ millions)	292	249
Interim dividend per share (HK cents)	6.05	5.16

In addition, final dividend in respect of year 2011 of 10.70 HK cents per share (30 June 2011: 6.83 HK cents per share in respect of year 2010) totalling HK\$516 million (30 June 2011: HK\$329 million) was approved and paid during the six months ended 30 June 2012.

## 10 Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$567 million (30 June 2011: HK\$464 million). Property, plant and equipment with a net book value of HK\$3 million (30 June 2011: HK\$47 million) was disposed of during the period, resulting in an insignificant loss (30 June 2011: gain of HK\$5 million).

## 11 Other intangible assets

During the period, the Group acquired a block of 30MHz spectrum in the 2.3GHz band (30 June 2011: spectrum in the 900MHz band) with a cost of HK\$151 million (30 June 2011: HK\$1,080 million) for the provision of mobile telecommunications services in Hong Kong for a period of 15 years.

## 12 Other non-current assets

	<b>As at 30 June 2012 HK\$ millions</b>	As at 31 December 2011 HK\$ millions
Prepayments	1,117	1,136
Non-current deposits	51	71
	<b>1,168</b>	1,207

## 13 Cash and cash equivalents

	<b>As at 30 June 2012 HK\$ millions</b>	As at 31 December 2011 HK\$ millions
Cash at banks and in hand	98	109
Short-term bank deposits	126	73
	<b>224</b>	182

## 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.

	Note	<b>As at 30 June 2012 HK\$ millions</b>	As at 31 December 2011 HK\$ millions
Trade receivables		1,521	1,626
Less: Provision for doubtful debts		(222)	(189)
Trade receivables, net of provision	14(a)	<b>1,299</b>	1,437
Other receivables		137	130
Prepayments and deposits		234	220
		<b>1,670</b>	1,787

## 14 Trade receivables and other current assets (Continued)

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

	<b>As at 30 June 2012 HK\$ millions</b>	As at 31 December 2011 HK\$ millions
The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:		
0-30 days	779	916
31-60 days	151	209
61-90 days	90	106
Over 90 days	279	206
	<b>1,299</b>	1,437

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 Trade and other payables

	Note	<b>As at 30 June 2012 HK\$ millions</b>	As at 31 December 2011 HK\$ millions
Trade payables	15(a)	625	462
Other payables and accruals		2,838	3,026
Deferred revenue		876	969
Current portion of licence fees liabilities		162	158
		<b>4,501</b>	4,615

## 15 Trade and other payables (Continued)

## (a) Trade payables

	As at 30 June 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
The ageing analysis of trade payables is as follows:		
0-30 days	278	188
31-60 days	91	56
61-90 days	39	39
Over 90 days	217	179
	<b>625</b>	<b>462</b>

## 16 Borrowings

	As at 30 June 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
Unsecured bank loans		
Repayable within 1 year	-	3,853
Repayable between 2 and 5 years	3,775	-
	<b>3,775</b>	<b>3,853</b>

On 14 June 2012, the Company and its subsidiaries, Hutchison Telephone Company Limited and Hutchison Global Communications Limited, entered into an agreement with a group of international commercial banks for a revolving and term credit facility of HK\$5,500 million available up to 14 June 2015 to refinance the then existing borrowings.



## 17 Other non-current liabilities

	As at 30 June 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
Non-current licence fees liabilities	794	761
Pension obligations	91	91
Accrued expenses	114	112
	<b>999</b>	964

## 18 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 2011: Same).

### (b) Issued share capital of the Company

	Note	Ordinary share of HK\$0.25 each Number of shares	Issued and fully paid HK\$ millions
As at 1 January 2011		4,815,756,208	1,204
Issuance of shares arising from exercise of employee share options	18(c)	2,250,000	1
As at 31 December 2011		4,818,006,208	1,205
As at 1 January 2012		<b>4,818,006,208</b>	<b>1,205</b>
Issuance of shares arising from exercise of employee share options	18(c)	<b>650,000</b>	-
As at 30 June 2012		<b>4,818,656,208</b>	<b>1,205</b>

## 18 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 2011	1	3,340,000
Exercised	1	(2,250,000)
As at 31 December 2011	1	1,090,000
As at 1 January 2012	<b>1</b>	<b>1,090,000</b>
Exercised	<b>1</b>	<b>(650,000)</b>
As at 30 June 2012	<b>1</b>	<b>440,000</b>

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 2012 resulted in 650,000 (31 December 2011: 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\$3.46 (31 December 2011: HK\$2.68) per share.

As at 30 June 2012, 440,000 (31 December 2011: 1,090,000) share options were exercisable.

## 19 Cash generated from operations

	Six months ended 30 June	
	2012 HK\$ millions	2011 HK\$ millions
Cash flows from operating activities		
Profit before taxation	727	628
Adjustments for:		
- Interest income (Note 6)	(5)	(2)
- Interest and other finance costs (Note 6)	77	57
- Depreciation and amortisation	645	561
- Gain on disposal of property, plant and equipment (Note 10)	-	(5)
- Share of results of jointly controlled entities	2	(1)
Changes in working capital:		
- Trade receivables and other assets	104	(229)
- Inventories	(16)	(50)
- Trade and other payables	(100)	647
Cash generated from operations	<b>1,434</b>	1,606

## 20 Contingent liabilities

The Group had contingent liabilities in respect of the following:

	As at 30 June 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
	Performance guarantees	942
Financial guarantees	18	18
	<b>960</b>	810

## 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 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
Property, plant and equipment and other intangible assets		
Contracted but not provided for	1,000	914
Authorised but not contracted for	197	1,008
	1,197	1,922
Investments in jointly controlled entities		
Authorised but not contracted for	245	282

### (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 2012 HK\$ millions	As at 31 December 2011 HK\$ millions	As at 30 June 2012 HK\$ millions	As at 31 December 2011 HK\$ millions
Not later than one year	356	310	162	113
Later than one year but not later than five years	201	201	129	35
Later than five years	-	-	9	10
	557	511	300	158

### (c) Telecommunications licence fees

A subsidiary of the Company has a unified carrier licence for the provision of telecommunications services in Hong Kong over various periods of time up to year 2021 (the "Licence") and variable licence fees are payable based on 5% of the network turnover 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 Fees has already been recorded as licence fee liabilities.

## 22 Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation of customer acquisition costs which represent net costs to acquire and retain telecommunications customers and are expensed and recognised in the period in which they are incurred.