

# Chairman's Statement

The results of Hutchison Telecommunications Hong Kong Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the first half of 2015 showed solid improvement compared with the first half of 2014 which reflected a continuing sign of turnaround in the mobile business. The Group as a whole benefited from increasing turnover, improving margin and process transformation.

## Results

The results in the first half of 2015 reflected the improvement in the mobile business since the second half of 2014 and continuing contribution from the fixed-line business. Consolidated turnover in the first half of 2015 was HK\$11,020 million, an increase of 77% compared with HK\$6,227 million in the first half of 2014. Profit attributable to shareholders in the first half of 2015 amounted to HK\$508 million, an increase of 57%, compared with HK\$323 million in the first half of 2014.

Basic earnings per share in the first half of 2015 were 10.54 HK cents compared with 6.70 HK cents in the first half of 2014.

## Dividends

The Board of Directors (the "Board") has declared payment of an interim dividend for the first half of 2015 of 5.20 HK cents (30 June 2014: 4.25 HK cents) per share, payable on Wednesday, 9 September 2015, to those persons registered as shareholders of the Company on Monday, 31 August 2015, being the record date for determining shareholders' entitlement to the interim dividend. The Board expects a total full-year dividend payout to be equivalent to 75% of annual profit attributable to shareholders.

## Business Review

### Mobile business – Hong Kong and Macau

Mobile business turnover was HK\$9,242 million in the first half of 2015, an increase of 108% compared with HK\$4,438 million in the first half of 2014. Mobile hardware revenue achieved an increase of 242% to HK\$7,150 million in the first half of 2015 compared with the first half of 2014 as a result of the continuing popularity of smartphones since the second half of 2014. Mobile net customer service revenue in the first half of 2015 was HK\$2,092 million, an 11% decline compared with HK\$2,348 million in the first half of 2014, mainly as a result of decrease in roaming revenue. The corresponding net customer service revenue margin percentage increased from 89% to 93% as a result of reduction in direct roaming costs. The net customer service revenue margin, after deducting the related customer acquisition costs, increased by 1% from HK\$1,801 million in the first half of 2014 to HK\$1,813 million in the first half of 2015. Excluding the roaming factors in both periods, adjusted local net customer service revenue margin increased by 5% from HK\$1,377 million in the first half of 2014 to HK\$1,444 million in the first half of 2015 as a result of better net ARPU<sup>(1)</sup> and reduction in direct variable costs.

Note:

(1) Net ARPU represents monthly average spending per user excluding customers' contribution to handsets, or other devices, in a bundled service and hardware plan in a 6-month period.

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EBITDA and EBIT in the first half of 2015 were HK\$870 million and HK\$552 million respectively, an improvement of 42% and 79% respectively when compared to the first half of 2014. The increases were mainly due to increased mobile turnover, enhanced customer quality and continued focus on operating efficiency following a planned strategy to focus more on margin and profitability. Service EBITDA margin <sup>(2)</sup> improved from 25% in the first half of 2014 to 33% in the first half of 2015.

As at 30 June 2015, the Group was serving approximately 2.9 million customers in Hong Kong and Macau (31 December 2014: 3.2 million), of which the number of postpaid customers was over 1.5 million (31 December 2014: 1.7 million). The decrease in postpaid customer number narrowed in the first half of 2015 and it is expected to attract more quality customer going forward with the advanced network infrastructure.

In line with the Group's continued commitment to network quality, the Group has expanded its high speed 4G Long-Term-Evolution ("4G LTE") network, which has resulted in a greater number of upgrade of existing customers to the 4G LTE tariff plans. Blended local postpaid net ARPU <sup>(3)</sup> for the first half of 2015 was HK\$158, an increase of 20% compared with HK\$132 for the first half of 2014, while the corresponding AMPU <sup>(4)</sup> improved by 22% to HK\$151 compared with first half of 2014.

The deployment of 4G LTE-Advanced service and construction of Time Division Duplexing network are in good progress and expected to be ready for service in the market in the near future. With this well-developed infrastructure, the Group anticipates considerable growth in 4G LTE customers and related net ARPU.

### Fixed-line business

Fixed-line service revenue in the first half of 2015 was HK\$1,984 million, comparable to that in the first half of 2014. Revenue generated from the corporate and business market continued to be the key growth driver, reporting an increase of 4% to HK\$581 million in the first half of 2015, partially offset by a 2% drop of revenue to HK\$1,052 million in the international and local carrier market primarily due to the decreased revenue from international direct dialing and local backhaul leased line services. EBITDA and EBIT in the first half of 2015 were HK\$656 million and HK\$307 million respectively, representing an increase of 4% and 8% respectively against the first half of 2014. EBITDA margin improved from 31% in the first half of 2014 to 33% in the first half of 2015. The increase in EBITDA and EBIT was mainly due to continued focus on the provision of high margin solution based offerings as well as operational efficiency.

The Group anticipates an increasing need for high speed sophisticated telecommunications network solutions. The evolution as a next generation solution provider via advanced network infrastructure and solution platforms including strong Wi-Fi presence as well as cloud-based solutions will put the Group in a solid position to address growing market demand.

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#### Notes:

- (2) Service EBITDA margin represents EBITDA excluding standalone handset sales revenue margin as a percentage of net customer service revenue.
- (3) Local postpaid net ARPU is defined as monthly average spending per postpaid user excluding roaming revenue and a customer's contribution to handset, or other devices, in a bundled service and hardware plan as well as revenue and expenses related to handset under the non-subsidised handset business model in a 6-month period. Prior period figure has been adjusted to conform to current period presentation.
- (4) AMPU represents average net margin per user.

### Outlook

With the improvement in local net customer service revenue in the mobile business together with the continuing contribution from the fixed-line business, the Group is tracking towards further enhancement in margin and profitability. As an integrated telecommunications operator with complementary mobile and fixed-line networks, the Group will continue to better serve its customers by developing diversified products and services with the state-of-the-art network infrastructure. The Group expects to build on this strong foundation for further growth in profitability and hence shareholder value in the future.

Finally, I would like to take this opportunity to thank the Board and all staff members for their dedication, professionalism and determination to succeed.

FOK Kin Ning, Canning

Chairman

Hong Kong, 4 August 2015