

# 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 Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

The Company and its subsidiaries (together the "Group") are principally 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 was approved for issuance by the Board of Directors on 4 August 2015.

## 2 Basis of Preparation

This interim financial report for the six months ended 30 June 2015 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 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

As at 30 June 2015, the current liabilities of the Group exceeded its current assets by approximately HK\$955 million. Included in the current liabilities were non-refundable customer prepayments of HK\$760 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\$195 million. Management of the Group anticipates the net cash inflows from its operations, together with the ability to draw down from available banking facility, would be sufficient to enable 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 applied and methods of computation used in the preparation of this interim financial report are consistent with those used in 2014 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 2015. The effect of the adoption of these new or revised standards, amendments and interpretations was not material to the results of operations or financial position of the Group.

## Notes to the Condensed Consolidated Interim Financial Report

### 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:

|  | Six months ended 30 June |                       |
|--|--------------------------|-----------------------|
|  | 2015<br>HK\$ millions    | 2014<br>HK\$ millions |
| Mobile telecommunications services     | 2,083                    | 2,338                 |
| Fixed-line telecommunications services | 1,787                    | 1,799                 |
| Telecommunications hardware            | 7,150                    | 2,090                 |
|  | <b>11,020</b>            | <b>6,227</b>          |

### 5 Segment Information

The Group is organised into two operating 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 EBITDA/(LBITDA)<sup>(a)</sup> and EBIT/(LBIT)<sup>(b)</sup>. Revenue from external customers is after elimination of inter-segment revenue. The segment information on turnover, EBITDA/(LBITDA) and EBIT/(LBIT) 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 2015 |                             |                         |                              |                        |
|---|-------------------------------|-----------------------------|-------------------------|------------------------------|------------------------|
|   | Mobile<br>HK\$ millions       | Fixed-line<br>HK\$ millions | Others<br>HK\$ millions | Elimination<br>HK\$ millions | Total<br>HK\$ millions |
| Turnover - service                            | 2,092                         | 1,984                       | -                       | (206)                        | 3,870                  |
| Turnover - hardware                           | 7,150                         | -                           | -                       | -                            | 7,150                  |
|   | 9,242                         | 1,984                       | -                       | (206)                        | 11,020                 |
| Operating costs                               | (8,372)                       | (1,328)                     | (70)                    | 206                          | (9,564)                |
| EBITDA/(LBITDA)                               | 870                           | 656                         | (70)                    | -                            | 1,456                  |
| Depreciation and amortisation                 | (318)                         | (349)                       | -                       | -                            | (667)                  |
| EBIT/(LBIT)                                   | 552                           | 307                         | (70)                    | -                            | 789                    |
| Other information:                            |                               |                             |                         |                              |                        |
| Additions to property,<br>plant and equipment | 160                           | 193                         | -                       | -                            | 353                    |
| Additions to<br>telecommunications licences   | 1                             | -                           | -                       | -                            | 1                      |

## 5 Segment Information (Continued)

|   | Six months ended 30 June 2014 |                             |                         |                              | Total<br>HK\$ millions |
|---|-------------------------------|-----------------------------|-------------------------|------------------------------|------------------------|
|   | Mobile<br>HK\$ millions       | Fixed-line<br>HK\$ millions | Others<br>HK\$ millions | Elimination<br>HK\$ millions |                        |
| Turnover - service  | 2,348                         | 2,013                       | -                       | (224)                        | 4,137                  |
| Turnover - hardware   | 2,090                         | -                           | -                       | -                            | 2,090                  |
| Operating costs   | 4,438<br>(3,824)              | 2,013<br>(1,382)            | -<br>(64)               | (224)<br>224                 | 6,227<br>(5,046)       |
| EBITDA/(LBITDA)   | 614                           | 631                         | (64)                    | -                            | 1,181                  |
| Depreciation and amortisation                                       | (306)                         | (348)                       | -                       | -                            | (654)                  |
| EBIT/(LBIT)   | 308                           | 283                         | (64)                    | -                            | 527                    |
| Other information:<br>Additions to property,<br>plant and equipment | 220                           | 200                         | -                       | -                            | 420                    |
| Additions to<br>telecommunications licences                         | 2                             | -                           | -                       | -                            | 2                      |

(a) EBITDA/(LBITDA) is defined as earnings/(losses) before interest income, interest and other finance costs, taxation, depreciation and amortisation and share of results of joint ventures.

(b) EBIT/(LBIT) is defined as earnings/(losses) before interest income, interest and other finance costs, taxation and share of results of joint ventures.

## 6 Interest and Other Finance Costs, Net

|   | Six months ended 30 June |                       |
|---|--------------------------|-----------------------|
|   | 2015<br>HK\$ millions    | 2014<br>HK\$ millions |
| Interest income:                                    |                          |                       |
| Interest income from joint ventures                 | 9                        | 11                    |
| Interest and other finance costs:                   |                          |                       |
| Bank loans repayable within 5 years                 | (28)                     | (39)                  |
| Notional non-cash interest accretion <sup>(a)</sup> | (24)                     | (30)                  |
| Guarantee and other finance fees                    | (13)                     | (17)                  |
|   | (65)                     | (86)                  |
| Less: Amounts capitalised on qualifying assets      | 5                        | 4                     |
|   | (60)                     | (82)                  |
| Interest and other finance costs, net               | (51)                     | (71)                  |

(a) 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             |                                       |                        |                                      |                                       |                        |
|-------------------|--------------------------------------|---------------------------------------|------------------------|--------------------------------------|---------------------------------------|------------------------|
|                   | 2015                                 |                                       |                        | 2014                                 |                                       |                        |
|                   | Current<br>taxation<br>HK\$ millions | Deferred<br>taxation<br>HK\$ millions | Total<br>HK\$ millions | Current<br>taxation<br>HK\$ millions | Deferred<br>taxation<br>HK\$ millions | Total<br>HK\$ millions |
| Hong Kong         | 1                                    | 113                                   | 114                    | -                                    | 72                                    | 72                     |
| Outside Hong Kong | 5                                    | 1                                     | 6                      | 9                                    | 1                                     | 10                     |
|                   | <b>6</b>                             | <b>114</b>                            | <b>120</b>             | 9                                    | 73                                    | 82                     |

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2014: 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.

Deferred taxation has been provided at the relevant rates on timing differences.

## 8 Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders of the Company of approximately HK\$508 million (30 June 2014: HK\$323 million) and on the weighted average number of 4,818,896,208 (30 June 2014: Same) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2015 is calculated by adjusting the weighted average number of 4,818,896,208 (30 June 2014: Same) ordinary shares in issue with the weighted average number of 142,693 (30 June 2014: 128,058) ordinary shares deemed to be issued assuming the exercise of the share options.

## 9 Dividends

|                                       | Six months ended 30 June |      |
|---------------------------------------|--------------------------|------|
|                                       | 2015                     | 2014 |
| Interim dividend (HK\$ millions)      | 251                      | 205  |
| Interim dividend per share (HK cents) | 5.20                     | 4.25 |

In addition, final dividend in respect of year 2014 of 8.70 HK cents per share (30 June 2014: 8.00 HK cents per share) totalling HK\$419 million (30 June 2014: HK\$386 million) was approved and paid during the six months ended 30 June 2015.

## 10 Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$353 million (30 June 2014: HK\$420 million). Property, plant and equipment with a net book value of HK\$1 million (30 June 2014: HK\$1 million) was disposed of during the period, resulting in a loss on disposal of HK\$1 million (30 June 2014: HK\$1 million).

## 11 Other Non-Current Assets

|                      | <b>30 June<br/>2015<br/>HK\$ millions</b> | 31 December<br>2014<br>HK\$ millions |
|----------------------|---|--------------------------------------|
| Prepayments          | 870                                       | 939                                  |
| Non-current deposits | 45  | 54                                   |
|                      | <b>915</b>                                | 993                                  |

## 12 Cash and Cash Equivalents

|                           | <b>30 June<br/>2015<br/>HK\$ millions</b> | 31 December<br>2014<br>HK\$ millions |
|---------------------------|---|--------------------------------------|
| Cash at banks and in hand | 193                                       | 117                                  |
| Short-term bank deposits  | 954                                       | 242                                  |
|                           | <b>1,147</b>                              | 359                                  |

The carrying values of cash and cash equivalents approximate their fair values.

## 13 Trade Receivables and Other Current Assets

|  | <b>30 June<br/>2015<br/>HK\$ millions</b> | 31 December<br>2014<br>HK\$ millions |
|--|---|--------------------------------------|
| Trade receivables                                  | 1,657                                     | 1,756                                |
| Less: Provision for doubtful debts                 | (158)                                     | (155)                                |
| Trade receivables, net of provision <sup>(a)</sup> | 1,499                                     | 1,601                                |
| Other receivables                                  | 137                                       | 120                                  |
| Prepayments and deposits                           | 222                                       | 171                                  |
|  | <b>1,858</b>                              | 1,892                                |

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

## 13 Trade Receivables and Other Current Assets (Continued)

## (a) Trade receivables, net of provision

|  | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|--|----------------------------------|--------------------------------------|
| The ageing analysis of trade receivables, net of provision for doubtful debts is as follows: |                                  |                                      |
| 0-30 days  | 1,014                            | 958                                  |
| 31-60 days   | 193                              | 220                                  |
| 61-90 days   | 98                               | 105                                  |
| Over 90 days   | 194                              | 318                                  |
|  | <b>1,499</b>                     | <b>1,601</b>                         |

## 14 Trade and Other Payables

|   | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|---|----------------------------------|--------------------------------------|
| Trade payables <sup>(a)</sup>               | 949                              | 714                                  |
| Other payables and accruals                 | 2,172                            | 2,255                                |
| Deferred revenue                            | 760                              | 805                                  |
| Current portion of licence fees liabilities | 190                              | 182                                  |
|   | <b>4,071</b>                     | <b>3,956</b>                         |

The carrying values of trade and other payables approximate their fair values.

## (a) Trade payables

|  | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|--|----------------------------------|--------------------------------------|
| The ageing analysis of trade payables is as follows: |                                  |                                      |
| 0-30 days  | 641                              | 388                                  |
| 31-60 days   | 68                               | 48                                   |
| 61-90 days   | 43                               | 39                                   |
| Over 90 days   | 197                              | 239                                  |
|  | <b>949</b>                       | <b>714</b>                           |

## 15 Borrowings

|   | <b>30 June<br/>2015<br/>HK\$ millions</b> | 31 December<br>2014<br>HK\$ millions |
|---|---|--------------------------------------|
| Unsecured bank loans<br>Repayable between 2 and 5 years | <b>3,957</b>                              | 3,952                                |

The carrying values of the Group's total borrowings as at 30 June 2015 and 31 December 2014 approximate their fair values which are based on cash flows discounted using the effective interest rates of the Group's total borrowings of 1.6% (31 December 2014: 1.6%) per annum and are within level 2 of the fair value hierarchy.

## 16 Other Non-Current Liabilities

|                                      | <b>30 June<br/>2015<br/>HK\$ millions</b> | 31 December<br>2014<br>HK\$ millions |
|--------------------------------------|---|--------------------------------------|
| Non-current licence fees liabilities | <b>408</b>                                | 395                                  |
| Pension obligations                  | <b>53</b>                                 | 58                                   |
| Accrued expenses                     | <b>192</b>                                | 190                                  |
|                                      | <b>653</b>                                | 643                                  |

## 17 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 2014: Same).

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

|   | Ordinary share<br>of HK\$0.25 each |   |
|---|------------------------------------|---|
|   | Number of<br>shares                | Issued and<br>fully paid<br>HK\$ millions |
| At 1 January 2014, 31 December 2014,<br>1 January 2015 and 30 June 2015 | 4,818,896,208                      | 1,205                                     |

## 17 Share Capital (continued)

### (c) Share options of the Company

The share option scheme of the Company 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 |
|--|--|---------------------------------|
| At 1 January 2014, 31 December 2014, 1 January 2015 and 30 June 2015 | 1.00   | 200,000                         |

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). No share option was exercised during the six months ended 30 June 2015 (year ended 31 December 2014: Nil).

As at 30 June 2015, 200,000 (31 December 2014: Same) share options were exercisable.

## 18 Cash Generated from Operations

|  | Six months ended 30 June |                       |
|--|--------------------------|-----------------------|
|  | 2015<br>HK\$ millions    | 2014<br>HK\$ millions |
| Cash flows from operating activities                           |                          |                       |
| Profit before taxation   | 720                      | 444                   |
| Adjustments for:   |                          |                       |
| - Interest income (Note 6)                                     | (9)                      | (11)                  |
| - Interest and other finance costs (Note 6)                    | 60                       | 82                    |
| - Depreciation and amortisation                                | 667                      | 654                   |
| - Loss on disposals of property, plant and equipment (Note 10) | 1                        | 1                     |
| - Share of results of joint ventures                           | 18                       | 12                    |
| Changes in working capital:                                    |                          |                       |
| - Decrease/(increase) in trade receivables and other assets    | 50                       | (66)                  |
| - Decrease in inventories                                      | 10                       | 63                    |
| - Increase in trade and other payables                         | 151                      | 156                   |
| - Increase in retirement benefits obligations                  | 5                        | 7                     |
| Cash generated from operations                                 | 1,673                    | 1,342                 |



## 19 Contingent Liabilities

The Group had contingent liabilities in respect of the following:

|                        | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|------------------------|----------------------------------|--------------------------------------|
| Performance guarantees | 505                              | 503                                  |
| Financial guarantees   | 13                               | 14                                   |
| Others                 | 4                                | 3                                    |
|                        | <b>522</b>                       | <b>520</b>                           |

The Company has guaranteed the borrowings (Note 15) which are borrowed in the name of a subsidiary and included in the condensed consolidated statement of financial position of the Group.

## 20 Commitments

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

### (a) Capital commitments

|                                   | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|-----------------------------------|----------------------------------|--------------------------------------|
| Property, plant and equipment     |                                  |                                      |
| Contracted but not provided for   | 756                              | 717                                  |
| Authorised but not contracted for | 336                              | 742                                  |
|                                   | <b>1,092</b>                     | <b>1,459</b>                         |
| Telecommunications licences       |                                  |                                      |
| Contracted but not provided for   | 1,777                            | 1,777                                |

In 2014, Hutchison Telephone Company Limited, a subsidiary of the Group, exercised a right of first refusal for the re-assignment of a block of 19.8MHz spectrum and bid a block of 9.8MHz spectrum at the 2100MHz (collectively, the "Spectrum") for a 15-year period commencing October 2016 at an aggregate consideration of approximately HK\$1,777 million payable in August 2016. A standby letter of credit in the same amount was issued in favour of the Office of the Communications Authority of Hong Kong in relation to the Spectrum.

|                                   | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
|-----------------------------------|----------------------------------|--------------------------------------|
| Investments in joint ventures     |                                  |                                      |
| Authorised but not contracted for | 33                               | 109                                  |

## 20 Commitments (Continued)

### (b) Operating lease commitments

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

|   | Buildings                        |                                      | Other assets                     |                                      |
|---|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
|   | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions | 30 June<br>2015<br>HK\$ millions | 31 December<br>2014<br>HK\$ millions |
| Not later than one year                           | 235                              | 227                                  | 195                              | 265                                  |
| Later than one year but not later than five years | 123                              | 158                                  | 65                               | 104                                  |
| Later than five years                             | -                                | -                                    | 6                                | 6                                    |
|   | <b>358</b>                       | <b>385</b>                           | <b>266</b>                       | <b>375</b>                           |

### (c) Telecommunications licence fees

A subsidiary of the Group has acquired various blocks of spectrum bands for the provision of telecommunications services in Hong Kong, certain of which over various assignment periods up to year 2021 and variable licence fees are payable on those spectrum bands based on 5% of the network turnover or the Appropriate Fee (as defined in the Unified Carrier Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fee liabilities.

## 21 Related Parties Transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Transactions between the Group and other related parties during the period are not significant to the Group.

No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).