

Chairman's Statement

Hutchison Telecommunications Hong Kong Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are pleased to report the 2016 interim results achieved in a market with continued downward trend in roaming and hardware revenue. Efforts have been made to maintain the service revenue by focusing on competitive offerings, customer service and maintaining quality integrated self-owned network infrastructure.

Results

Compared with the first half of 2015, consolidated revenue decreased by 52% from HK\$11,020 million to HK\$5,324 million in the first half of 2016. Over 99% of the decline was due to a decrease in hardware revenue because of the lack of popular smartphones being available in the market during the period. Consolidated EBITDA and EBIT for the first half of 2016 were HK\$1,253 million and HK\$556 million respectively, compared with HK\$1,456 million and HK\$789 million respectively for the first half of 2015. Profit attributable to shareholders for the first half of 2016 amounted to HK\$376 million, a decrease of 26% compared with HK\$508 million for the first half of 2015.

Compared with the second half of 2015, consolidated revenue decreased by 52% to HK\$5,324 million in the first half of 2016, while consolidated service revenue was HK\$3,826 million, a 1% increase from HK\$3,804 million in the second half of 2015. This was mainly the result of improvement to fixed-line service revenue, partially offset by a decrease in mobile roaming revenue. Profit attributable to shareholders was 8% lower than HK\$407 million in the second half of 2015.

Basic earnings per share in the first half of 2016 were 7.80 HK cents compared with 10.54 HK cents for the same period in 2015.

Dividends

The Board of Directors (the "Board") has declared payment of an interim dividend of 4.00 HK cents (30 June 2015: 5.20 HK cents) per share for the first half of 2016, payable on Friday, 9 September 2016 to those persons registered as shareholders of the Company on Wednesday, 31 August 2016, being the record date for determining shareholder entitlement to the interim dividend. The Board expects 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 revenue in the first half of 2016 was HK\$3,472 million, a decrease of 62% compared with HK\$9,242 million in the first half of 2015. Hardware revenue decreased significantly from HK\$7,150 million in the first half of 2015 to HK\$1,499 million in the first half of 2016, as a result of the lack of popular smartphones being available in the market during the period. Mobile net customer service revenue in the first half of 2016 was HK\$1,973 million, a 6% decline compared with HK\$2,092 million in the first half of 2015, mainly as a result of a HK\$87 million or 19% decline in roaming revenue. Nevertheless, strenuous efforts to reduce direct roaming costs helped maintain the net customer service margin percentage at 93% in the first half of 2016. Excluding the roaming factor in both periods, local net customer service margin in the first half of 2016, after deducting direct variable cost, was in line with that of the first half of 2015. This was the result of better local postpaid net ARPU ⁽¹⁾ with enhanced customer profile.

Note:

(1) Local postpaid net ARPU is defined as monthly average spending per postpaid user excluding roaming revenue and revenue related to handset under the non-subsidised handset business model.

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EBITDA and EBIT for the first half of 2016 were HK\$665 million and HK\$314 million respectively, a decrease of 24% and 43% respectively compared with the first half of 2015. Service EBITDA ⁽²⁾ in the first half of 2016 was 7% lower than that of the first half of 2015 mainly due to a decline in roaming revenue as mentioned before. Corresponding service EBITDA margin percentage ⁽²⁾ was maintained at 33% as a result of continued efforts to improve operational efficiency.

Compared with the second half of 2015, mobile business performance was adversely affected by a 79% drop in handset revenue, mobile service revenue decreased marginally by 2% mainly as a result of a milder HK\$22 million or 6% reduction in roaming revenue, while the net customer service margin percentage was 93%. Excluding the roaming factor in both periods, local net service margin of the first half of 2016 was in line with that of the second half of 2015. Data usage increased during the period as a result of the launch of various infotainment content and related data plans, together with better customer acquisition achievements since the second half of 2015. Excluding the negative effect of hardware performance, service EBITDA improved by HK\$11 million or 2%, while service EBIT was in line with that of the second half of 2015. Corresponding service EBITDA margin percentage improved by 2% points from 31% in the second half of 2015, as a result of enhanced customer profile and improved operational efficiency.

As at 30 June 2016, the Group was serving approximately 3.1 million customers in Hong Kong and Macau (31 December 2015: 3.0 million), of which the number of postpaid customers was approximately 1.5 million (31 December 2015: 1.5 million). Churn among postpaid customers in Hong Kong and Macau in the first half of 2016 was substantially lower at 1.3% (1H 2015: 1.9%; 2H 2015: 1.6%).

The launch of various infotainment content and related data plans led to positive customer response with acquisition of more data-centric customers, and blended local postpaid net ARPU for the first half of 2016 increased to HK\$168. This represented an increase of 6% compared with HK\$158 for the first half of 2015. Blended local postpaid net AMPU ⁽³⁾ improved 7% to HK\$161 compared with HK\$151 in the first half of 2015.

The Group refarmed part of the existing 900MHz spectrum for 4G LTE service in the first half of 2016 in order to enhance indoor coverage. Meanwhile, construction of a time division duplexing network is about to complete and is expected to be launched in the second half of 2016 after further optimisation. The second half of 2016 will see small-cell technology deployed to enhance coverage in areas of heavy traffic. The Group's commitment to meeting growing data demand is supported by an extensive and sophisticated Wi-Fi network. The Group, as a customer-orientated operator, will continue improving customer service and network quality.

Fixed-line business

Fixed-line service revenue in the first half of 2016 was HK\$2,067 million, an increase of 4% compared with HK\$1,984 million in the first half of 2015. This improvement was mainly the result of an increase in revenue from the international and local carrier market driven by growing data demand from Over-the-Top ("OTT") applications and Internet-of-Things ("IoT") related devices. Another contributor was an increase in revenue from the corporate and business market after expansion into various market segments with sophisticated business solution requirements. This was partially offset by a decrease in residential market revenue resulting from a fiercely-competitive environment. EBITDA for the first half of 2016 was HK\$647 million, broadly in line with that of the same period last year. EBIT for the first half of 2016 was HK\$301 million, 2% lower than that of the first half of 2015.

Notes:

- (2) Service EBITDA represents EBITDA excluding standalone handset sales margin. Service EBITDA margin percentage is service EBITDA as a percentage of net customer service revenue.
- (3) Local postpaid net AMPU represents average net margin per postpaid user. Local postpaid net AMPU equals local postpaid net ARPU less direct variable costs (including interconnection charges).

Compared with the second half of 2015, fixed-line service revenue increased by 4% mainly as a result of increased revenue recorded in the carrier market as well as the corporate and business market after further penetration into various market segments. EBITDA and EBIT improved by 5% and 11% respectively, compared with those of the second half of 2015. EBITDA margin percentage was maintained at 31%.

Demand for sophisticated telecommunications network solutions has increased in carrier, corporate and business markets. At the same time, the Group is making attractive bundled offers available to the residential market to satisfy a growing appetite for infotainment. Presiding over state-of-the-art fibre network infrastructure and one of the largest Wi-Fi presence in Hong Kong places the Group in a commanding position to capitalise on even greater demand for data services, as well as opportunities arising from growing popularity of OTT applications and IoT offerings.

Outlook

The Group is planning ahead cautiously in the face of economic uncertainty locally and globally, after developing into a multi-play telecommunications service provider that launches a diversity of products and services to meet changing customer demand. Growing popularity of IoT devices and OTT applications has prompted the Group to shape up to a new era of infotainment in which increasingly more people desire of viewing content on smart devices. The Group serves customers at home, on the move and in the workplace by integrating mobile, fixed-line, Wi-Fi and content network solutions. At the same time, the Group is committed to further raising customer service levels through sophisticated and automated means of customer service and operating efficiency which help enhance shareholder value.

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, 2 August 2016