

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 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 2 August 2016.

2 Basis of Preparation

This interim financial report for the six months ended 30 June 2016 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 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

As at 30 June 2016, the current liabilities of the Group exceeded its current assets by approximately HK\$535 million. Included in the current liabilities were non-refundable customer prepayments of HK\$737 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 assets of the Group would have been approximately HK\$202 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 2015 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 2016. 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.

4 Revenue

Revenue comprises revenues from provision of mobile telecommunications services, sales of telecommunications hardware and provision of fixed-line telecommunications services. An analysis of revenue is as follows:

	Six months ended 30 June	
	2016 HK\$ millions	2015 HK\$ millions
Mobile telecommunications services	1,957	2,083
Fixed-line telecommunications services	1,869	1,787
Telecommunications hardware	1,498	7,150
	5,324	11,020

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)^(a) and EBIT/(LBIT)^(b). Revenue from external customers is after elimination of inter-segment revenue. The segment information on revenue, 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 2016				
	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Revenue - service	1,973	2,067	-	(214)	3,826
Revenue - hardware	1,499	-	-	(1)	1,498
	3,472	2,067	-	(215)	5,324
Operating costs	(2,807)	(1,420)	(59)	215	(4,071)
EBITDA/(LBITDA)	665	647	(59)	-	1,253
Depreciation and amortisation	(351)	(346)	-	-	(697)
EBIT/(LBIT)	314	301	(59)	-	556
Other information:					
Additions to property, plant and equipment	198	231	-	-	429
Additions to telecommunications licences	1	-	-	-	1

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5 Segment Information (Continued)

	Six months ended 30 June 2015				
	Mobile HK\$ millions	Fixed-line HK\$ millions	Others HK\$ millions	Elimination HK\$ millions	Total HK\$ millions
Revenue - service	2,092	1,984	-	(206)	3,870
Revenue - 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, plant and equipment	160	193	-	-	353
Additions to telecommunications licences	1	-	-	-	1

(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	
	2016 HK\$ millions	2015 HK\$ millions
Interest income:		
Interest income from a joint venture	9	9
Interest and other finance costs:		
Bank loans	(29)	(28)
Notional non-cash interest accretion ^(a)	(19)	(24)
Guarantee and other finance fees	(13)	(13)
	(61)	(65)
Less: Amounts capitalised on qualifying assets	3	5
	(58)	(60)
Interest and other finance costs, net	(49)	(51)

(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					
	2016			2015		
	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions	Current taxation HK\$ millions	Deferred taxation HK\$ millions	Total HK\$ millions
Hong Kong	1	73	74	1	113	114
Outside Hong Kong	3	1	4	5	1	6
	4	74	78	6	114	120

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2015: 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\$376 million (30 June 2015: HK\$508 million) and on the weighted average number of 4,818,896,208 (30 June 2015: Same) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2016 is calculated by adjusting the weighted average number of 4,818,896,208 (30 June 2015: Same) ordinary shares in issue with the weighted average number of 123,372 (30 June 2015: 142,693) ordinary shares deemed to be issued assuming the exercise of the share options.

9 Dividends

	Six months ended 30 June	
	2016	2015
Interim dividend (HK\$ millions)	193	251
Interim dividend per share (HK cents)	4.00	5.20

In addition, final dividend in respect of year 2015 of 9.00 HK cents per share (30 June 2015: 8.70 HK cents per share) totalling HK\$433 million (30 June 2015: HK\$419 million) was approved and paid during the six months ended 30 June 2016.

10 Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment with a cost of HK\$429 million (30 June 2015: HK\$353 million). Property, plant and equipment with a net book value of HK\$5 million (30 June 2015: HK\$1 million) was disposed of during the period, resulting in an insignificant loss (30 June 2015: loss of HK\$1 million).

11 Other Non-Current Assets

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Prepayments	769	813
Non-current deposits	49	45
	818	858

12 Cash and Cash Equivalents

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Cash at banks and in hand	205	290
Short-term bank deposits	1,157	731
	1,362	1,021

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

13 Trade Receivables and Other Current Assets

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Trade receivables	1,408	1,661
Less: Provision for doubtful debts	(121)	(110)
Trade receivables, net of provision ^(a)	1,287	1,551
Other receivables	91	95
Prepayments and deposits	327	171
	1,705	1,817

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 corporate or carrier 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.

(a) Trade receivables, net of provision

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
The ageing analysis of trade receivables, net of provision for doubtful debts is as follows:		
0-30 days	804	1,039
31-60 days	200	208
61-90 days	104	115
Over 90 days	179	189
	1,287	1,551

14 Trade and Other Payables

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Trade payables ^(a)	857	1,041
Other payables and accruals	1,907	2,217
Deferred revenue	737	751
Current portion of licence fees liabilities	203	191
	3,704	4,200

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

(a) Trade payables

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
The ageing analysis of trade payables is as follows:		
0-30 days	482	477
31-60 days	68	137
61-90 days	67	101
Over 90 days	240	326
	857	1,041

15 Borrowings

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Unsecured bank loans Repayable between 2 and 5 years	3,967	3,962

The carrying values of the Group's total borrowings as at 30 June 2016 and 31 December 2015 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% per annum (31 December 2015: 1.6%) and are within level 2 of the fair value hierarchy.

16 Other Non-Current Liabilities

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Non-current licence fees liabilities	234	230
Pension obligations	87	80
Accrued expenses	205	203
	526	513

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 2015: Same).

(b) Issued share capital of the Company

	Ordinary share of HK\$0.25 each	
	Number of shares	Issued and fully paid HK\$ millions
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	4,818,896,208	1,205

(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
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	1.00	200,000

17 Share Capital (Continued)

(c) Share options of the Company (continued)

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 2016 (year ended 31 December 2015: Nil).

As at 30 June 2016, 200,000 (31 December 2015: Same) share options were exercisable.

18 Cash Generated from Operations

	Six months ended 30 June	
	2016 HK\$ millions	2015 HK\$ millions
Cash flows from operating activities		
Profit before taxation	493	720
Adjustments for:		
- Interest income (Note 6)	(9)	(9)
- Interest and other finance costs (Note 6)	58	60
- Depreciation and amortisation	697	667
- Loss on disposals of property, plant and equipment (Note 10)	-	1
- Share of results of joint ventures	14	18
Changes in working capital:		
- Decrease in trade receivables and other assets	111	50
- Decrease in inventories	475	10
- (Decrease)/increase in trade and other payables	(461)	151
- Retirement benefits obligations	7	5
Cash generated from operations	1,385	1,673

19 Contingent Liabilities

The Group had contingent liabilities in respect of the following:

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
	Performance guarantees	615
Financial guarantees	11	12
Others	5	4
	631	326

20 Commitments

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

(a) Capital commitments

The Group had capital commitments contracted but not provided for as follows:

	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Property, plant and equipment	702	748
Telecommunications licences	1,777	1,777
	2,479	2,525

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.

(b) Operating lease commitments

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

	Buildings		Other assets	
	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions	30 June 2016 HK\$ millions	31 December 2015 HK\$ millions
Not later than one year	216	230	232	184
Later than one year but not later than five years	65	99	29	57
Later than five years	-	-	5	5
	281	329	266	246

(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 revenue 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).