

Chairman's Statement

Hutchison Telecommunications Hong Kong Holdings Limited and its subsidiaries reported its results for the first half of 2017 in an increasingly competitive market, especially in the mobile sector. The Group continues to focus on developing innovative products and services to meet ever-changing customer needs with the aim to nurture service revenue growth into the future, while enhancing the overall mobile and fixed-line customer experience.

Results

Consolidated revenue, comprising service and hardware revenue from mobile and fixed-line businesses, decreased by 6% from HK\$5,369 million for the first half of 2016 to HK\$5,069 million for the first half of 2017. This was the result of a drop in hardware revenue, partially offset by improved service revenue.

Despite the drop in consolidated revenue, consolidated EBITDA was HK\$1,269 million, comparable to the same period last year with key focus on efficiency to achieve savings in operating expenditure. The consolidated EBIT was HK\$477 million, 11% below the same period in 2016 mainly as a result of higher mobile spectrum amortisation charge after the renewal of mobile spectrum licence in October 2016. Profit attributable to shareholders for the first half of 2017 amounted to HK\$324 million, a drop of 10% compared with HK\$362 million for the first half of 2016.

Basic earnings per share for the first half of 2017 were 6.72 HK cents compared with 7.51 HK cents for the first half of 2016.

Dividend

The Board has declared the payment of an interim dividend of 3.90 HK cents (30 June 2016: 4.00 HK cents) per share for the first half of 2017, payable on Friday, 1 September 2017 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 23 August 2017, being the record date for determining shareholders' 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 for the first half of 2017 amounted to HK\$3,117 million, a decrease of 10% compared with HK\$3,472 million for the first half of 2016. More than 90% of the decline in mobile revenue was the result of lower hardware revenue following weaker demand for new smartphones. Hardware revenue decreased by 22% from HK\$1,499 million for the first half of 2016 to HK\$1,173 million for the first half of 2017.

Mobile net customer service revenue for the first half of 2017 was HK\$1,944 million, a marginal decrease of 1% compared with HK\$1,973 million for the first half of 2016. The slight decrease in net customer service revenue was mainly the result of a 9% decline in roaming revenue compared with the same period in 2016. The reduction in roaming revenue slowed down in the first half of 2017 from a drop of 19% for the same period in 2016 against 2015, with the signs of recovery after introduction of various new roaming products and promotions. Net customer service margin percentage for the first half of 2017 was maintained at 93%.

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EBITDA in the first half of 2017 decreased by 3% to HK\$647 million, mainly reflecting a decrease in roaming service margin and lower standalone handset sales margin, partially offset by improved local net customer service margin. On the other hand, service EBITDA in the first half of 2017 was HK\$630 million. Corresponding service EBITDA margin percentage was 32%, which was comparable with that in the same period of 2016. EBIT decreased by 24% to HK\$240 million compared to the same period in 2016, mainly due to the increased mobile spectrum amortisation charge after the renewal of mobile spectrum licence in October 2016.

As of 30 June 2017, the Group was serving approximately 3.3 million customers in Hong Kong and Macau (31 December 2016: approximately 3.2 million), of which the number of postpaid customers was approximately 1.5 million (31 December 2016: approximately 1.5 million). Overall churn rate among postpaid customers improved to 1.2% in the first half of 2017 from 1.3% in the first half of 2016. This reflected greater user satisfaction in respect of 4G LTE network quality and enhanced customer service. The Group is committed to enhancing further in churn management following the recent launch of a loyalty programme among our customers.

Blended local postpaid net ARPU decreased by 3% from HK\$166 in the first half of 2016 to HK\$161 in the first half of 2017, as a result of keen competition in the mobile market. Accordingly, blended local postpaid net AMPU decreased by 2% to HK\$155 in the first half of 2017 from HK\$158 in the first half of 2016. The Group will continue to launch more OTT services, innovative products, IoT and big data applications to meet customer demands and improve revenue.

The Group is deploying the latest technologies and enhancing existing network architecture as the industry moves towards 5G and the IoT. Together with deployment of carrier aggregation technology, the Group is working on initiatives such as small-cell and smart antenna deployment to enable timely launch of services to meet market demand after the 5G standard and Hong Kong's spectrum plans are confirmed.

Fixed-line business

Fixed-line service revenue for the first half of 2017 was HK\$2,167 million, an increase of 3% compared with HK\$2,112 million for the first half of 2016. This improvement was mainly the result of higher revenue from corporate and business market segments driven by growing data and ICT needs, partially offset by lower revenue from the residential market as a result of keen market competition.

During the period, the Group acquired the remaining 50% interest in HGCGC, the then joint venture between the Group and the CKHH Group, to cater for the increasing demand of data centre facilities in harmony with existing advanced network infrastructure to develop new products and services locally and internationally.

EBITDA in the first half of 2017 increased by 2% to HK\$682 million compared with HK\$669 million in the first half of 2016 as a result of improved revenue, while EBIT for the first half of 2017 improved by 6% to HK\$297 million compared with HK\$280 million in the first half of 2016.

Outlook

Market conditions and competition look set to remain challenging in the second half of 2017. However, carriers, corporations and consumers alike appreciate the benefits of connectivity, which will drive continued growth in data consumption. In fact, demand for innovative telecommunications services will inevitably continue to rise and the Group will benefit from these opportunities.

The Group is therefore committed to introducing innovative products designed to meet or exceed customer expectations and open up new revenue streams. The Group aims to concentrate more on customer retention by rewarding them for spending performance and loyalty. Such new initiatives will also help maximise customer satisfaction and thereby improve churn. Meanwhile, the Group will continue to digitise operations in order to enhance efficiency and enable timely responses to market needs.

Fresh opportunities are emerging in this era of digitalisation, especially in areas such as the IoT, big data and cloud computing. Our assets and capabilities position the Group well to capitalise on the growing importance of such trends. In this regard, the Group will continue to optimise internal process and structure so as to harness the full benefits of increasing demand for data connectivity.

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, 25 July 2017