Notes to the Condensed Consolidated Interim Financial Statements

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. Its registered office address is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company and its subsidiaries (together the "Group") is engaged in mobile telecommunications business in Hong Kong and Macau.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements (the "interim financial statements") are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These interim financial statements were approved for issuance by the Board of Directors on 30 July 2019.

2 Basis of Preparation

These interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting". These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim financial statements have been prepared under the historical cost convention and on a going concern basis.

3 Significant Accounting Policies

The accounting policies applied and methods of computation used in the preparation of these interim financial statements are consistent with those used in 2018 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 2019. Save as disclosed in Note 4, the adoption of other new or revised standards, amendments and interpretations does not have a material impact to the Group's results of operations or financial position.

4 Changes in Accounting Policies

This note discloses the new accounting policies of IFRS 16 *Leases* that have been applied from 1 January 2019 and explains the impact of the adoption on the Group's interim financial statements.

(a) IFRS 16 *Leases*

The Group has adopted IFRS 16 from 1 January 2019 which resulted in changes in accounting policies. In accordance with the transition provisions in IFRS 16, the Group has adopted the modified retrospective approach for transition to the new lease standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of IFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of IFRS 16, i.e. 1 January 2019; and (iii) the Group recognises the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

Accounting policies

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

The Group leases various network sites, retail stores and offices. Rental contracts are typically made for fixed periods of two to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Before the adoption of IFRS 16, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the condensed consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Commitments under operating leases for future periods were not recognised by the Group as liabilities.

From 1 January 2019, leases are recognised as right-of-use assets and the corresponding lease liabilities at the dates at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are amortised over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

4 Changes in Accounting Policies (Continued)

(a) IFRS 16 *Leases* (Continued)

Accounting policies (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate, being the rate that the lease would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar term and condition.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- payments associated with short-term leases for all classes of underlying assets are recognised on a straight-line basis over the lease terms as expenses in the condensed consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

4 Changes in Accounting Policies (Continued)

(b) Impact of adoption to the interim financial statements

The following tables illustrate the amounts by each financial statements line item affected in current period by the application of IFRS 16 as compared to IAS 17 and IFRIC 4 that were previously in effect before the adoption of IFRS 16:

	Six months ended 30 June 2019		
Condensed Consolidated Statement of Comprehensive Income	**Reported under current accounting policies HK$ million**	**Effect of IFRS 16 HK$ million**	**Balance without the adoption of IFRS 16 HK$ million**
Revenue	2,515	-	2,515
Cost of inventories sold	(724)	-	(724)
Staff costs	(194)	-	(194)
Expensed customer acquisition and retention costs	(95)	-	(95)
Depreciation and amortisation	(603)	224	(379)
Other operating expenses	(750)	(233)	(983)
	149	(9)	140
Interest and other finance income	109	-	109
Interest and other finance costs	(17)	8	(9)
Share of result of a joint venture	(2)	-	(2)
Profit before taxation	239	(1)	238
Taxation	(43)	-	(43)
Profit and total comprehensive income for the period, net of tax	196	(1)	195
Attributable to:			
Shareholders of the Company	188	(1)	187
Non-controlling interests	8	-	8
	196	(1)	195

4 Changes in Accounting Policies (Continued)

(b) Impact of adoption to the interim financial statements (Continued)

Condensed Consolidated Statement of Financial Position	At 30 June 2019 Reported under current accounting policies HK$ million	Effect of IFRS 16 HK$ million	Balance without the adoption of IFRS 16 HK$ million
ASSETS			
Non-current assets			
Property, plant and equipment	2,159	12	2,171
Goodwill	2,155	-	2,155
Telecommunications licences	2,166	-	2,166
Right-of-use assets	479	(479)	-
Customer acquisition and retention costs	125	-	125
Contract assets	158	-	158
Other non-current assets	224	-	224
Deferred tax assets	227	(1)	226
Investment in a joint venture	367	-	367
Total non-current assets	8,060	(468)	7,592
Current assets			
Cash and cash equivalents	5,353	-	5,353
Trade receivables and other current assets	566	1	567
Contract assets	252	-	252
Inventories	70	-	70
Total current assets	6,241	1	6,242
Current liabilities			
Trade and other payables	1,529	-	1,529
Contract liabilities	124	-	124
Lease liabilities	334	(334)	-
Current income tax liabilities	27	-	27
Total current liabilities	2,014	(334)	1,680
Non-current liabilities			
Lease liabilities	140	(140)	-
Other non-current liabilities	292	-	292
Total non-current liabilities	432	(140)	292
Net assets	11,855	7	11,862
CAPITAL AND RESERVES			
Share capital	1,205	-	1,205
Reserves	10,650	7	10,657
Total equity	11,855	7	11,862

4 Changes in Accounting Policies (Continued)

(b) Impact of adoption to the interim financial statements (Continued)

	Six months ended 30 June 2019		
Condensed Consolidated Statement of Cash Flows	Reported under current accounting policies HK$ million	Effect of IFRS 16 HK$ million	Balance without the adoption of IFRS 16 HK$ million
Net cash from operating activities	551	(226)	325
Net cash used in investing activities	(47)	-	(47)
Net cash used in financing activities	(4,706)	226	(4,480)
Net decrease in cash and cash equivalents	(4,202)	-	(4,202)

4 Changes in Accounting Policies (Continued)

(b) Impact of adoption to the interim financial statements (Continued)

Condensed Consolidated Statement of Financial Position	31 December 2018 As previously reported HK$ million	Effect of IFRS 16 HK$ million	1 January 2019 As restated HK$ million
ASSETS			
Non-current assets			
Property, plant and equipment	2,194	(16)	2,178
Goodwill	2,155	-	2,155
Telecommunications licences	2,289	-	2,289
Right-of-use assets	-	621	621
Customer acquisition and retention costs	132	-	132
Contract assets	130	-	130
Other non-current assets	300	-	300
Deferred tax assets	258	1	259
Investment in a joint venture	396	-	396
Total non-current assets	7,854	606	8,460
Current assets			
Cash and cash equivalents	9,555	-	9,555
Trade receivables and other current assets	546	-	546
Contract assets	276	-	276
Inventories	107	-	107
Total current assets	10,484	-	10,484
Current liabilities			
Trade and other payables	1,755	-	1,755
Contract liabilities	132	-	132
Lease liabilities	-	398	398
Current income tax liabilities	16	-	16
Total current liabilities	1,903	398	2,301
Non-current liabilities			
Lease liabilities	-	216	216
Other non-current liabilities	288	-	288
Total non-current liabilities	288	216	504
Net assets	16,147	(8)	16,139
CAPITAL AND RESERVES			
Share capital	1,205	-	1,205
Reserves	14,771	(7)	14,764
Total shareholders' funds	15,976	(7)	15,969
Non-controlling interests	171	(1)	170
Total equity	16,147	(8)	16,139

4 Changes in Accounting Policies (Continued)

(b) Impact of adoption to the interim financial statements (Continued)

Difference between operating lease commitments disclosed under IAS 17 and lease liabilities recognised under IFRS 16

The operating lease commitments disclosed as at 31 December 2018 were HK$265 million, while the lease liabilities recognised as at 1 January 2019 were HK$614 million, of which HK$398 million were current lease liabilities and HK$216 million were non-current lease liabilities.

The differences between the operating lease commitments discounted using the lessee's incremental borrowing rate and the total lease liabilities recognised in the condensed consolidated statement of financial position at the date of initial application of IFRS 16 comprised the exclusion of non-lease components and short-term leases recognised on a straight-line basis as expenses, and different treatments on lease contracts in relation to termination options or under renewal process. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.0%.

5 Revenue

Revenue comprises revenues from provision of mobile telecommunications and other related service as well as sales of telecommunications hardware. An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Mobile telecommunications and other related service	**1,782**	1,843
Telecommunications hardware	**733**	2,178
	2,515	4,021

(a) Disaggregation of revenue

The Group derives revenue from the provision of services and delivery of goods by timing of satisfaction of performance obligations as follows:

	Six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Timing of revenue recognition:		
Over time	**1,782**	1,843
At a point in time	**733**	2,178
	2,515	4,021

6 Segment Information

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purpose of resource allocation and performance assessment, the Group has identified only one reporting segment, i.e. mobile telecommunications business.

7 Interest and Other Finance Income, Net

	Six months ended 30 June	
	2019 **HK$ million**	2018 HK$ million
Interest and other finance income:		
Bank interest income	**99**	79
Interest income from a joint venture	**10**	10
	109	89
Interest and other finance costs:		
Bank loans	**-**	(1)
Notional non-cash interest accretion [(i)]	**(12)**	(6)
Guarantee and other finance fees	**(5)**	(3)
	(17)	(10)
Interest and other finance income, net	**92**	79

(i) 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 lease liabilities, 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.

8 Taxation

	Six months ended 30 June					
	2019			2018		
	Current taxation HK$ million	**Deferred taxation HK$ million**	**Total HK$ million**	Current taxation HK$ million	Deferred taxation HK$ million	Total HK$ million
Hong Kong	**11**	**32**	**43**	3	39	42
Outside Hong Kong	**-**	**-**	**-**	1	(1)	-
	11	**32**	**43**	4	38	42

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2018: 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.

9 Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders of the Company of approximately HK$188 million (30 June 2018: HK$198 million) and on the weighted average number of 4,818,969,136 (30 June 2018: 4,818,896,208) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2019 is calculated by adjusting the weighted average number of 4,818,969,136 (30 June 2018: 4,818,896,208) ordinary shares in issue with the weighted average number of 87,081 (30 June 2018: 131,973) ordinary shares deemed to be issued assuming the exercise of the share options.

10 Dividend

	Six months ended 30 June	
	2019	2018
Interim dividend (HK$ million)	**141**	149
Interim dividend per share (HK cents)	**2.93**	3.10

In addition, special interim dividend in respect of year 2018 of 80.00 HK cents per share totalling HK$3,855 million (30 June 2018: Nil) and final dividend in respect of year 2018 of 3.20 HK cents per share (30 June 2018: 4.55 HK cents per share) totalling HK$154 million (30 June 2018: HK$219 million) were approved and paid during the six months ended 30 June 2019.

11 Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment with a cost of HK$154 million (30 June 2018: HK$282 million). Property, plant and equipment with a net book value of HK$0.8 million (30 June 2018: HK$0.1 million) was disposed of during the period, resulting in an insignificant loss (30 June 2018: insignificant gain).

12 Other Non-Current Assets

	30 June 2019 HK$ million	31 December 2018 HK$ million
Prepayments	**186**	255
Non-current deposits	**31**	36
Pension assets	**7**	9
	224	300

13 Cash and Cash Equivalents

	30 June 2019 HK$ million	31 December 2018 HK$ million
Cash at banks and in hand	253	262
Short-term bank deposits	5,100	9,293
	5,353	9,555

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

14 Trade Receivables and Other Current Assets

	30 June 2019 HK$ million	31 December 2018 HK$ million
Trade receivables	328	299
Less: Loss allowance provision	(49)	(41)
Trade receivables, net of provision [(a)]	279	258
Other receivables	101	175
Prepayments and deposits	186	113
	566	546

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 2019 HK$ million	31 December 2018 HK$ million
The ageing analysis of trade receivables, by invoice date, net of loss allowance provision is as follows:		
0 – 30 days	145	150
31 – 60 days	48	44
61 – 90 days	23	18
Over 90 days	63	46
	279	258

15 Trade and Other Payables

	30 June 2019 HK$ million	31 December 2018 HK$ million
Trade payables [(a)]	**321**	314
Other payables and accruals	**1,028**	1,250
Deferred revenue	**123**	135
Current portion of licence fees liabilities	**57**	56
	1,529	1,755

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

(a) Trade payables

	30 June 2019 HK$ million	31 December 2018 HK$ million
The ageing analysis of trade payables is as follows:		
0 – 30 days	**213**	244
31 – 60 days	**43**	6
61 – 90 days	**7**	4
Over 90 days	**58**	60
	321	314

16 Other Non-Current Liabilities

	30 June 2019 HK$ million	31 December 2018 HK$ million
Non-current licence fees liabilities	**89**	84
Accrued expenses	**203**	204
	292	288

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 2018: Same).

(b) Issued share capital of the Company

	Ordinary share of HK$0.25 each	
	Number of shares	Issued and fully paid HK$ million
At 1 January 2018, 31 December 2018 and 1 January 2019	4,818,896,208	1,205
Issuance of shares arising from exercise of employee share options [(c)]	200,000	-
At 30 June 2019	4,819,096,208	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 were as follows:

	Weighted average exercise price per share HK$	Number of share options granted
At 1 January 2018, 31 December 2018 and 1 January 2019	1.00	200,000
Exercised	1.00	(200,000)
At 30 June 2019		-

17 Share Capital (Continued)

(c) Share options of the Company (Continued)

The exercise price of the share options granted was equal to the market price of the shares on the date of grant. The share options were exercisable during a period, subject to the vesting schedule, commencing on the date on which the share options were 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). Share options exercised during the six months ended 30 June 2019 resulted in 200,000 (31 December 2018: Nil) ordinary shares of HK$0.25 each being issued at a weighted average exercise price of HK$1.00 each. The related weighted average share price at the date of exercise was HK$3.30 per share.

As at 30 June 2019, no share options were outstanding (31 December 2018: 200,000 exercisable share options).

18 Cash Generated from Operations

	Six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Cash flows from operating activities		
Profit before taxation	**239**	261
Adjustments for:		
– Interest and other finance income	**(109)**	(89)
– Interest and other finance costs	**17**	10
– Depreciation and amortisation	**603**	381
– Capitalisation of customer acquisition and retention costs	**(69)**	(80)
– Share of result of a joint venture	**2**	2
Changes in working capital		
– Decrease/(increase) in trade receivables and other assets	**17**	(29)
– Decrease in inventories	**37**	21
– Decrease in trade and other payables	**(175)**	(335)
– Changes in retirement benefits	**2**	5
Cash generated from operations	**564**	147

19 Contingent Liabilities

The Group had contingent liabilities in respect of the following:

	30 June 2019 HK$ million	31 December 2018 HK$ million
Performance guarantees	**4**	4
Others	**-**	1
	4	5

20 Commitments

Outstanding commitments of the Group not provided for in these interim financial statements are as follows:

(a) Capital commitments

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

	30 June 2019 HK$ million	31 December 2018 HK$ million
Property, plant and equipment	**363**	396
Telecommunications licences	**2,040**	2,040
	2,403	2,436

In 2018, HTCL, a subsidiary of the Group, exercised a right of first refusal for the re-assignment of a block of 20 MHz spectrum at the 1800 MHz band, and bid a block of 10 MHz spectrum at the 900 MHz band and bid a block of 10 MHz spectrum at the 1800 MHz band (collectively, the "Spectrums"), for a 15-year period (commencing January 2021 for 900 MHz band and September 2021 for 1800 MHz band) at aggregate Spectrum Utilisation Fee ("SUF") of approximately HK$2,040 million. Standby letters of credit in the same amount were issued in favour of the Communications Authority of Hong Kong in relation to the Spectrums.

SUF for the Spectrums are payable either (i) in full as a lump sum payment upfront (by November 2020 for 900 MHz band and by July 2021 for 1800 MHz band); or (ii) annually in 15 instalments with the first instalment equivalent to the lump sum amount divided by 15 and for each subsequent instalment an amount equal to the SUF payable in the immediately preceding instalment increased by 2.5%.

20 Commitments (Continued)

(b) Telecommunications licence fees

A subsidiary of the Group acquired various blocks of spectrum bands for the provision of telecommunications services in Hong Kong, certain of which over various assignment years/periods up to year 2021. The variable licence fees for these spectrum bands were charged on 5% of the network revenue or the Appropriate Fee (as defined in the Unified Carrier Licence), 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. Save as disclosed elsewhere in the interim financial statements, 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 remuneration).