

# Telecommunications

The Group's telecommunications division includes, as at 31 December 2009, a 62.60% interest in Hutchison Telecommunications Hong Kong Holdings ("HTHKH"), which is listed on The Stock Exchange of Hong Kong Limited, a 60.36% interest in Hutchison Telecommunications International ("HTIL"), which is listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, and the 3 Group businesses in Europe and Australia.



3 Shop in Hong Kong

- HTHKH announced turnover of HK\$8,449 million and profit attributable to shareholders of HK\$468 million.
- HTIL announced turnover of HK\$1,856 million and profit attributable to shareholders of HK\$4,940 million.
- Registered 3G customer base grew 29% to 25.9 million at 31 December 2009 and currently totals over 26.8 million.

## Operations Review – Telecommunications

HTHKH holds the Group's interests in 2G and 3G mobile operations in Hong Kong and Macau, as well as fixed-line operations in Hong Kong. HTIL holds the Group's interests in 2G mobile operations in Indonesia, Vietnam, Sri Lanka and Thailand. The 3 Group is one of the world's leading operators of 3G mobile telecommunications technology with businesses in seven countries across Europe and Australia.



■ 3.0 Shop addresses the growing demand for mobile data and broadband services.

### Hutchison Telecommunications Hong Kong Holdings

HTHKH was spun off by way of distribution in specie by HTIL, and was then listed by way of introduction on The Stock Exchange of Hong Kong Limited on 8 May 2009. HTHKH announced its full year 2009 turnover of HK\$8,449 million and profit attributable to shareholders of HK\$468 million, a 4% and a 103% increase respectively over last year. Both mobile and fixed-line operations reported improved results compared to last year. HTHKH, after adjusting for the Group's asset valuation consolidation adjustments, contributed 3% and 2% respectively to the total revenue and EBIT of the Group's established businesses.

The mobile operations in Hong Kong and Macau achieved a 3% increase in combined turnover and an EBIT increase in 2009. The improved results were mainly due to an enlarged 3G customer base, higher service margin driven by the increased contribution from

Internet and data access services, partially offset by lower inbound roaming revenues. The combined mobile customer base, on an active basis, was approximately 3.0 million as at 31 December 2009, representing a 10% increase from the beginning of the year, with the number of postpaid customers reaching 1.9 million, accounting for over 60% of the total mobile customer base. In January 2009, a joint venture of HTHKH and Hong Kong Telecommunications (HKT) Limited successfully bid for a Broadband Wireless Access ("BWA") radio spectrum in Hong Kong. The BWA licence paves the way to establish a next generation platform for high speed data services.

The fixed-line telecommunications business in Hong Kong continues to progress, reporting a 6% increase in revenue and an EBIT increase in 2009. The overall revenue growth was mainly due to improved performance of the carrier and corporate and business segments, partially offset by lower interconnection revenue following the abolishment of fixed-mobile interconnection charges from April 2009.

## Hutchison Telecommunications International

HTIL, a subsidiary listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange announced 2009 turnover of HK\$1,856 million, a 3% increase over last year, and profit attributable to shareholders of HK\$4,940 million (2008, as restated - HK\$1,132 million). The 2009 results include a gain, after a prudent provision for tax, of HK\$6,333 million from the disposal of its entire shareholding in Partner Communications in Israel and contributions from certain suppliers totalling HK\$155 million (2008 - HK\$731 million) in relation to its Indonesian operations. At 31 December 2009, HTIL had a mobile customer base of 12.8 million, representing a 98% increase over the comparable base last year. HTIL, after adjusting for the Group's asset valuation consolidation adjustments and adjustments to conform HTIL's accounting policies to the Group's Hong Kong Financial Reporting Standards, contributed 5% and a negative 1% respectively to the total revenue and EBIT of the Group's established businesses.

Subsequent to the year end, the Group and HTIL announced a proposal to privatise HTIL by way of a Scheme of Arrangement ("the Scheme") whereby each share of HTIL held by HTIL shareholders (other than those which are wholly owned by the Group) on 24 May 2010 to be cancelled in exchange for HK\$2.20 in cash and that this offer will not be increased. On the assumption that all outstanding HTIL share options are exercised, the cash consideration would total HK\$4,227 million. The Scheme is subject to, inter alia, approval by the

minority shareholders and court sanction. Court dates are scheduled in the second quarter of 2010 for determination of the Scheme.

As disclosed in the Group's 2008 annual report in the Risk Factors section, HTIL received comments from the staff of the US Securities and Exchange Commission (the "Staff") regarding its annual report on Form 20-F for the year ended 31 December 2007. The Staff raised certain questions in August 2008 regarding the accounting treatment of the sale and leaseback of base station tower sites entered into by HTIL's Indonesian subsidiary, PT. Hutchison CP Telecommunications ("HCPT").

HCPT entered into a Tower Transfer Agreement to sell up to 3,692 base station tower sites for a cash consideration of US\$500 million (HK\$3,882 million), with completion in tranches over a two-year period commencing on 18 March 2008. Concurrent with completion of the first tranche, HCPT entered into a Master Lease Agreement to lease back a portion of the capacity on the base station tower sites. HTIL reviewed the substance of this transaction in accordance with International Financial Reporting Standards and determined, with the agreement of its auditor, that this transaction satisfied the criteria for recognition as an operating lease. Accordingly, HTIL reflected this treatment in its audited accounts for the year ended 31 December 2008 and a gain on disposal of the base station tower sites amounting to US\$182.2 million (HK\$1,421 million) was recognised, as well as the lease expense for the period from the commencement of the lease.



Motorbike marketing campaigns in Hanoi, Ho Chi Minh and Da Nang to build brand awareness for "Vietnamobile".

## Operations Review – Telecommunications

This sale and leaseback transaction was first reported as a subsequent event in HTIL's annual report on Form 20-F for the year ended 31 December 2007. As part of its periodic review of HTIL's 2007 Form 20-F, the Staff queried this accounting treatment in a letter dated 28 August 2008. Since that date, HTIL and its auditor have had a number of discussions with the Staff.

Although HTIL continues to believe its judgement that this transaction satisfies the criteria for recognition as an operating lease is appropriate, it has not been able to agree this accounting treatment with the Staff who believes the transaction should be treated as a finance lease. In view of the judgemental aspects of this complex issue and with regard to the impending shareholders' meeting to enable the shareholders of HTIL to vote on the proposal for privatisation and the requirement to prepare as soon as possible a scheme document for the use of shareholders for the purpose of this shareholders' meeting, HTIL has decided to amend and restate the previously reported accounts for the year ended 31 December 2008 to reflect the accounting for the transaction as a finance lease in accordance with the Staff's judgement and will be filing an amended annual report on Form 20-F for the year ended 31 December 2008. The adjustments required to the 2008 accounts include:

- deferring and amortising the gain from the sale of the capacity leased back by HTIL over the lease period in the consolidated income statement;
- recognising the leased assets and the related finance lease obligations in the consolidated statement of financial position; and
- recognising depreciation expense on the leased assets and interest expense on the lease payments as finance lease charges.

The gain attributable to the portion of the capacity of the base station tower sites sold under the Tower Transfer Agreement that has not been leased back by HCPT, amounting to US\$54.6 million (HK\$426 million) continues to be recognised in the consolidated income statement of HTIL in 2008. HTIL has disclosed in Note 2(b) to its 2009 financial statements the effect of this restatement in detail.

Having noted that HTIL, the Group's 60.36% owned subsidiary, has decided to restate its previously reported consolidated financial statements for the year ended 31 December 2008 to reflect the accounting for a certain sale and leaseback transaction as a finance lease, the Group has determined not to restate its consolidated financial statements. This restatement in a subsidiary is not material to the Group's consolidated financial statements. For the sake of transparency, if the Group had adopted the changes made by HTIL; in 2008, the Group's profit attributable to shareholders would have reduced by HK\$446 million or 3.5%, total assets would have increased by HK\$899 million or 0.1%, total liabilities would have increased by HK\$1,965 million or 0.5% and total equity would have reduced by HK\$1,066 million or 0.4%; in 2009, the Group's profit attributable to shareholders would have reduced by HK\$170 million or 1.2%, total assets would have increased by HK\$2,161 million or 0.3%, total liabilities would have increased by HK\$3,261 million or 0.9% and total equity would have reduced by HK\$1,100 million or 0.3%.

In Indonesia, HCPT owns a nationwide licence to provide 2G and 3G services. In 2009, the business continued to grow and now serves Bali, Lombok, Sumatra, Kalimantan, Sulawesi and Java, covering 76% of the population of the country. The customer base at the end of 2009 increased to 8.5 million. Turnover for the year increased 93% to HK\$608 million and LBITDA amounted to HK\$1,300 million.

In Vietnam, HTIL with Hanoi Telecommunications Joint Stock Company launched GSM services in April 2009 under the new brand name "Vietnamobile". The customer base at the end of 2009 was 2.5 million. Turnover for the year increased from HK\$18 million to HK\$141 million and LBITDA amounted to HK\$361 million.

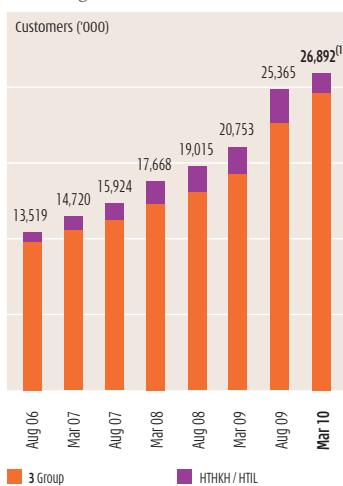
In Sri Lanka, Hutchison Telecom Lanka faced a difficult operating environment and the customer base decreased to 779,000 customers from 887,000 last year. Turnover was down to HK\$61 million, compared to HK\$160 million last year and LBITDA was HK\$94 million, compared to an EBITDA of HK\$37 million in 2008.

In Thailand, HTIL's mobile business provides CDMA services. Turnover was HK\$1,046 million in 2009, a 12% decrease compared to last year. EBITDA was HK\$83 million, compared with HK\$81 million last year. HTIL remains in discussions to exit this operation.

## 3 Group

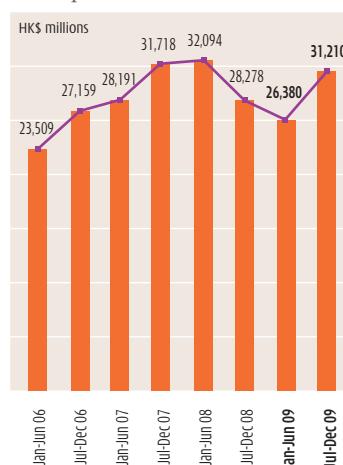
	2009 HK\$ millions	2008 Restated HK\$ millions	Change
Total Revenue	57,590	60,372	-5%
LBIT Gain on merger of 3 Australia with Vodafone Australia	(8,922) 3,641	(15,792) -	+44% N/A
LBIT after the merger gain	(5,281)	(15,792)	+67%

Total Registered 3G Customers



(1) Excludes Israel's customer base following the sale of HTL's entire shareholding in Partner Communications in Israel in August. Israel's customer base in August 2009 was 1,139,000.

3 Group's Total Revenue



The 3 Group comprises the 3G mobile operations in the United Kingdom, Ireland, Italy, Sweden, Denmark, Austria and Australia, and also a licence for the development of a 3G network in Norway.

Despite depressed economic conditions in most of its markets, overall the 3 Group continued to grow its customer and revenue bases, reduce operating losses and reduce cash outflows by focusing on acquiring higher margin mobile broadband access customers, stabilising churn and implementing cost reduction measures. 3 Group has maintained its 3G market leading position in the countries it operates in.

The 3 Group reported, in local currencies, a 5% growth in total revenue as a result of the growth in the customer base partially offset by lower ARPU. After translation to Hong Kong dollars, 3 Group's total revenue decreased 5% from 2008 to HK\$57,590 million. In local currencies, 3 Group reported a reduction in LBIT of 64% and after translation to Hong Kong dollars, LBIT amounted to HK\$5,281 million, a 67% reduction compared to total LBIT of HK\$15,792 million in 2008. The terms of 3 Italia's and 3 UK's telecommunications licences

provide for continuous renewal and extension rights such that the licences have an indefinite life. With an indefinite life, licence costs are no longer required to be amortised and both 3 Italia and 3 UK ceased recording amortisation charges for the year. The effect of this change in useful life and amortisation is to reduce 3 Group's reported LBIT in the current year and going forward by approximately HK\$3,895 million. Also, included in this result is a one-time gain of HK\$3,641 million resulting from the merger of 3 Australia with Vodafone Australia. The LBIT in the comparable 2008 results also includes a one-time gain resulting from foreign exchange gains totalling HK\$2,945 million from 3 European operations' refinancings. Excluding the effect of the change in amortisation and the above one-time gains in both years, LBIT reduced 32% and in local currencies reduced 27%.

The Group's registered 3G customer base (including the 3G customers of HTHKH) grew 29% during the year to approximately 25.9 million at 31 December 2009 and currently totals over 26.8 million, reflecting continued growth and the additional customers arising from the merger of the Group's Australian business with Vodafone's

## Operations Review – Telecommunications

business in Australia in June. The proportion of active customers in the 3 Group's registered customer base and contract customer base was approximately 84% and 97% respectively at the end of the year, compared to 79% and 97% at the end of 2008. Management continues to focus on managing churn, which has stabilised at an average monthly customer churn rate of 2.7% in 2009, consistent with 2008, whilst the churn rate of contract customers has improved slightly from 1.9% last year to 1.8% this year. The proportion of contract customers as a percentage of the registered customer base has decreased slightly from 55% last year to 54% at the end of 2009. All operations within the 3 Group achieved solid customer growth and increased their respective market share in 2009.

ARPU, on a 12-month trailing average basis, decreased 15% in 2009 to €28.32, largely due to regulatory reductions of mobile termination and roaming rates, price competition and an increased proportion of mobile broadband access customers added during the year. Mobile broadband access customers characteristically generate lower ARPU, but higher gross margins than handset customers.

Growth of higher margin non-voice revenues continued to be a key focus of the 3 Group in 2009. Average non-voice revenue per active user as a percentage of ARPU for 2009 increased to 38%, compared to 33% in 2008. In order to meet the increasing demand of mobile broadband services and to further enhance its mobile services to customers, all 3 Group's networks have been upgraded to provide High Speed Packet Access mobile broadband services. At 31 December 2009, approximately 4.5 million customers, representing 18% of the total 3 Group customer base, have mobile broadband access, an increase of 75% from last year. As a result of the success in increasing the proportion of higher gross margin customers, overall the 3 Group reported increased gross margin as a percentage of revenues compared to 2008. Gross margins also continued to improve due to the economies of scale from a larger customer base, stringent controls over operating costs and outsourcing the operational management of certain network infrastructure. The 3 Group continues to explore opportunities to reduce operating costs and maximise the benefits from its investments in the mobile networks through cell site and network sharing arrangements.



■ INQ launches the INQ Mini to offer a suite of social media services including Twitter, Facebook and Skype.

Customer acquisition costs and retention costs ("CACs") totalling HK\$17,306 million in 2009 were 15% lower than 2008 due to a 25% reduction in the unit cost to acquire a customer, averaging €106 per customer, on a 12-month trailing basis, compared to €141 for 2008, partially offset by an increase in the number of customers acquired and retained during the year. This favourable declining trend of average CACs reflects the lower cost of handsets and mobile broadband access product costs, as well as the increased focus on acquiring higher gross margin mobile broadband access customers. To further enhance the customer experience with the 3 Group's high-speed mobile broadband network, 3 Group has designed and developed more models of innovative yet affordable and simple-to-use consumer mobile devices such as the INQ Mini and the INQ Chat that put social networking, email and instant messaging at the heart of mass-market mobile phones.

In order to increase the comparability of performance with other operators within the global industry and to more closely align the income statement with the cash flow statement, the Group retrospectively adopted a new accounting policy during the year to expense as incurred all acquisition and retention costs related to contract customers. Previously, these costs were capitalised and amortised over the contract terms. The impact of this change has been included in the Group's results and amounts to a reduction of 3 Group's reported LBIT in the current year by HK\$875 million (2008 - increased LBIT by HK\$4,935 million).

3 Group achieved positive EBITDA after all CACs of HK\$176 million, a 117% turnaround from the comparable LBITDA last year of HK\$1,055 million. This turnaround is due to an enlarged customer base, cost savings from outsourcing activities, stringent cost controls and effective working capital management.

Depreciation and amortisation expense, which includes the depreciation of networks and amortisation of licence fees, content and other rights decreased 38% to HK\$9,098 million in 2009, largely due to the cessation of licence amortisation in 3 Italia and 3 UK as mentioned above.

The 3 Group's capital expenditure amounted to HK\$8,259 million in 2009, a 35% reduction compared to the HK\$12,726 million in 2008, mainly due to the completion of most of the major network expansion activities and deconsolidation of the financial results of 3 Australia. Capital expenditure during the year primarily related to network expansion and upgrades of High Speed Downlink Packet Access ("HSDPA") and High Speed Uplink Packet Access ("HSUPA") capabilities.

## Key Business Indicators

Key business indicators for the **3** Group businesses and HTHKH's 3G customers are as follows:

	Customer Base					
	Registered Customers at 29 March 2010 ('000)			Registered Customer Growth (%) from 31 December 2008 to 31 December 2009		
	Prepaid	Postpaid	Total	Prepaid	Postpaid	Total
United Kingdom & Ireland	2,537	3,724	<b>6,261</b>	36%	6%	<b>15%</b>
Italy	5,619	3,388	<b>9,007</b>	-5%	21%	<b>3%</b>
Australia <sup>(1)</sup>	3,177	4,208	<b>7,385</b>	1,455%	112%	<b>239%</b>
Sweden & Denmark	191	1,444	<b>1,635</b>	56%	24%	<b>27%</b>
Austria	207	698	<b>905</b>	15%	38%	<b>32%</b>
<b>3 Group Total</b>	<b>11,731</b>	<b>13,462</b>	<b>25,193</b>	39%	34%	<b>36%</b>
Hong Kong and Macau <sup>(2)</sup>	272	1,427	<b>1,699</b>	119%	12%	<b>20%</b>
<b>Total</b>	<b>12,003</b>	<b>14,889</b>	<b>26,892</b>	40%	21%	<b>29%</b>

	Customer Service Revenue							
	Revenue for the year ended 31 December 2009 (millions)					Growth (%) compared to the year ended 31 December 2008		
	% of total		% of total			Revenue		
	Prepaid	Revenue	Postpaid	Revenue	Total	Prepaid	Postpaid	Total
United Kingdom & Ireland	£168.9	11%	£1,379.9	89%	<b>£1,548.8</b>	-	-1%	<b>-1%</b>
Italy	€409.2	25%	€1,237.8	75%	<b>€1,647.0</b>	-26%	5%	<b>-5%</b>
Australia <sup>(3)</sup>	A\$318.5	17%	A\$1,566.0	83%	<b>A\$1,884.5</b>	313%	13%	<b>28%</b>
Sweden & Denmark	SEK130.4	2%	SEK5,421.8	98%	<b>SEK5,552.2</b>	39%	21%	<b>22%</b>
Austria	€5.0	3%	€169.2	97%	<b>€174.2</b>	-4%	3%	<b>3%</b>

	12-month Trailing Average Revenue per Active User ("ARPU") <sup>(4)</sup> to 31 December 2009						
	Total				Non-voice		
	Prepaid	Postpaid	Blended Total	% Variance compared to 31 December 2008	ARPU	% of total ARPU	
United Kingdom & Ireland	£10.74	£32.24	<b>£26.46</b>	-21%	<b>£9.71</b>	37%	
Italy	€11.23	€36.74	<b>€23.49</b>	-7%	<b>€9.05</b>	39%	
Australia <sup>(3)</sup>	A\$29.04	A\$71.61	<b>A\$55.82</b>	-16%	<b>A\$20.48</b>	37%	
Sweden & Denmark	SEK111.58	SEK366.18	<b>SEK347.55</b>	-8%	<b>SEK144.92</b>	42%	
Austria	€10.61	€24.79	<b>€23.87</b>	-28%	<b>€11.60</b>	49%	
<b>3 Group Average</b>	<b>€13.01</b>	<b>€36.88</b>	<b>€28.32</b>	-15%	<b>€10.77</b>	38%	

Note 1: Active customers (including customers of mobile virtual network operators ("MVNOs")) at 31 December 2009 as announced by listed subsidiary HTAL, updated for net additions to 29 March 2010.

Note 2: Hong Kong and Macau active customers at 31 December 2009 as announced by listed subsidiary HTHKH, updated for net additions to 29 March 2010.

Note 3: Revenue and ARPU (excluding ARPU from MVNOs) as announced by listed subsidiary HTAL. Revenue represents the results of the **3** business for the five months to May 2009 and 50% of the merged business for the seven months to December 2009.

Note 4: ARPU equals total revenue excluding handset and connection revenues, divided by the average number of active customers during the year, where an active customer is one that has generated revenue from either an outgoing or incoming call or 3G service in the preceding three months.

## Operations Review – Telecommunications

### United Kingdom and Ireland

The combined registered customer base of wholly-owned subsidiaries, **3 UK** and **3 Ireland** where the **3G** business is still at a relatively early stage of development, has grown by 15% from 31 December 2008 to over 6.0 million at 31 December 2009, and currently the combined base totals over 6.2 million. The growth reflects a 59% increase in mobile broadband access customers to over 1.7 million which affected the customer mix. Contract customers decreased to 62% of the combined registered base at the end of 2009 (2008 - 68%). Active customers, as a proportion of the combined registered base, was 86% at 31 December 2009, compared to 87% last year. Of the combined contract customer base, 96% are active, in line with last year, and contributed 89% of the combined revenue base. The average combined monthly customer churn rate increased from 2.6% in 2008 to 3.0% in 2009, while the average combined monthly churn rate of contract customers increased from 1.6% last year to 1.9% this year. The combined ARPU, on a 12-month trailing average basis, declined from £33.57 in 2008 to £26.46, mainly due to the adverse impact of the regulated interconnection and international roaming fee reductions in the United Kingdom and also the increase in the combined mobile broadband access customers.

Although these mobile broadband access customers generate lower average ARPU, they contribute higher gross margins. The proportion of revenue from the higher margin non-voice services

increased to 37% of combined ARPU compared to 34% in 2008.

Combined revenue, in British pounds, decreased 1% during the year to £1,549 million, reflecting the adverse impact of the tariff regulations and the increasing proportion of non-contract and mobile broadband access customers as mentioned above.

**3 UK** continued to improve, reporting EBITDA after all CACs growth of 5%. This improved result reflects tighter cost controls. LBIT totalled £89 million, a 72% reduction from the comparable recurring LBIT last year before non-recurring 2008 foreign exchange gains. The reduction is due to the above factors, reduced licence amortisation charges of £240 million, partially offset by increased depreciation charges. Combined LBIT for **3 UK** and **3 Ireland**, in British pounds, improved 66% compared to 2008 before non-recurring 2008 foreign exchange gains.

The network upgrade to roll out HSDPA through the UK network sharing arrangement with another UK mobile network operator continues to progress. In December 2008, **3 Ireland** was awarded the contract for the rollout of broadband services by the Irish Government aimed at delivering broadband to those in Ireland without access to the technology and the nationwide rollout is progressing well.

### Italy

The Group has a 97.4% interest in **3 Italia** at 31 December 2009. The registered customer base grew 3% in 2009 to total over 8.8 million at 31 December 2009 and is currently over 9.0 million. **3 Italia** continued to focus on higher value contract customers, which represented 37% of the registered base at the end of 2009 (2008 - 32%), and building its mobile broadband access customer base which increased 196% during the year. Active customers, as a proportion of the total registered customer base was 69% at 31 December 2009, compared to 67% last year. Of the contract customer base which contributed 75% of the revenue base, 92% is active compared to 94% last year. Average monthly customer churn rate decreased from 3.1% in 2008 to 2.7% in 2009, largely due to the significant improvement in the churn rate of contract customers decreasing from 3.0% last year to 2.2%. ARPU, on a 12-month trailing average basis, declined from €25.34 to €23.49 in 2009, mainly due to regulatory actions on top up charges and mobile termination rates, and also competition. Gross margin declined as a percentage of revenue in 2009 mainly due to the launch of new tariff plans with marketing initiatives to attract higher value contract customers. The proportion of revenue from the higher margin non-voice services increased to 39% of ARPU, compared to 32% in 2008. **3 Italia**'s revenue, in local currency, declined 5% mainly due to regulatory actions, competition and the increasing proportion of mobile broadband access customers.



**3 UK** is the first UK mobile operator to open a store specifically aimed at catering to the Chinese community in London.



 **3** Italia continues to build its mobile broadband access customer base.

**3** Italia continued to improve, reporting a decrease in LBITDA after all CACs of 70% to €136 million in 2009. This improved result reflects cost savings from outsourcing activities, stringent cost controls and lower CACs. LBIT totalled €447 million, a 50% reduction from the comparable recurring LBIT last year before non-recurring 2008 foreign exchange gains. The reduction is due to the above factors and a reduction in licence amortisation charges of €89 million in 2009 and lower depreciation charges.

## Australia

The Group's 87.87% owned, listed subsidiary in Australia, Hutchison Telecommunications (Australia) Limited ("HTAL"), announced service revenue attributable to HTAL of A\$1,885 million, a 28% increase over the previous year, and a profit for the year attributable to shareholders of A\$468 million, a 387% improvement from last year's results. Excluding the gain on the merger of **3** Australia with Vodafone Australia of A\$587 million, HTAL reported a net loss of A\$119 million, which is 27% lower than last year's loss of A\$163 million. HTAL also announced a 239% growth of its active customer base from 31 December 2008 to total approximately 6.9 million at 31 December 2009, and the base is currently over 7.3 million active customers. Postpaid customers represented 57% of the active customer base at the end of the year, compared with 91% at the end of 2008. This shift in the customer base was due to a larger proportion of prepaid customers acquired as part of the merger. The business has maintained industry low postpaid customer churn of 1.3% per month

in 2009. Mobile broadband access customers increased to 673,000, a 134% increase from 288,000 in 2008. ARPU, on a 12-month trailing average basis, was affected by the higher proportion of prepaid customers in the post-merger period, declining 16% to A\$55.82 in 2009. Revenue from non-voice services attributable to HTAL increased 46% to A\$677 million. Non-voice services now contribute 37% of ARPU, up from 31% in 2008.

## Other **3** Group Operations in Europe

In Sweden and Denmark, where the Group has 60% interest in its **3** Group operations, the combined registered customer base grew 27% to over 1.5 million at 31 December 2009 and currently totals over 1.6 million. Contract customers at 31 December 2009 represented 88% of the combined registered customer base, a decrease from 90% last year. Active customers, as a proportion of the total combined registered customer base and the combined contract customer base at 31 December 2009, was 95% and 100% respectively, and is comparable to the 96% and 100% respectively, reported last year. The average combined monthly customer churn rate remained stable at 2.1% in both 2008 and 2009. Although ARPU, on a 12-month trailing average basis, decreased 8% to SEK347.55, combined revenue in Swedish Kronas increased by 22% compared to 2008, primarily due to the enlarged customer base. The proportion of revenue from the higher margin non-voice services increased from 36% of ARPU in 2008 to 42% in 2009.

## Operations Review – Telecommunications

**3** Sweden and **3** Denmark continued to improve, reporting EBITDA after all CACs growth of 1,312% resulting from a turnaround of LBITDA last year to EBITDA in 2009. This improved result reflects higher gross margins and tight cost controls. LBIT totalled SEK439 million, a 63% reduction from the comparable recurring LBIT last year. This reduction is due to the above factors, lower depreciation charges, partially offset by increased licence amortisation charges.

The registered customer base of **3** Austria increased by 32% during 2009 to over 864,000 at 31 December 2009 and currently stands at 905,000. The proportion of contract customers at 31 December 2009 represented 78% of the total registered customer base, an increase compared to the 74% reported last year. Active customers as a proportion of the total registered customer base increased from 78% in 2008 to 83% in 2009, while active customers as a proportion of the contract customer base at 31 December 2009 remained stable at 99% in both years. The average monthly customer churn rate decreased from 1.6% in 2008 to 1.3% in 2009. ARPU, on a 12-month trailing average basis, declined 28% from €33.04 in 2008 to €23.87 in 2009, mainly due to an increased proportion of mobile broadband access customers and an ongoing decline in interconnection revenues due to regulatory actions. The proportion of revenue from the higher margin non-voice services increased from 36% of ARPU in 2008 to 49% in 2009. **3** Austria's revenue and LBIT, before non-recurring foreign exchange gains in 2008, in local currency, increased 3% and reduced 8% respectively, mainly due to an enlarged customer base and improved gross margins.

### Interest Expense, Finance Costs And Tax

The Group's interest expense and finance costs for the year, including its share of associated companies' and jointly controlled entities' interest expense, amortisation of finance costs and after deducting interest capitalised to assets under development, amounted to HK\$13,025 million, a decrease of 36% when compared to 2008, mainly due to lower effective market interest rates and repayment of certain bank loans and notes in 2008 and 2009. During the year, the Group refinanced and repaid debts as they matured and repaid early certain other long-term borrowings and notes totalling

HK\$103,182 million. Further information on these expenses can be found in the "Group Capital Resources and Liquidity" section of the annual report.

The Group recorded current and deferred tax charges totalling HK\$8,321 million for the year, an increase of 19%, mainly due to a prudent provision for tax by HTIL arising from the disposal of its Israeli telecommunications operation.

### Summary

The Group faced a challenging year in 2009, with the severity of the financial crisis impacting all industries and countries to varying degrees. Despite the difficult operating environment in 2009, the Group's diversified operations performed satisfactorily. The uncertain economic environment is anticipated to continue in 2010 and the Group will continuously monitor the operations and focus on cost controls to meet upcoming challenges.

The 2009 results were achieved through the dedicated efforts and hard work of the Group's employees and I would like to join our Chairman in thanking them for their continuing support and contributions throughout the year.

**Fok Kin-ning, Canning**

*Group Managing Director*

Hong Kong, 30 March 2010