



# Telecommunications

- HTHKH announced profit attributable to shareholders of HK\$755 million, a 61% increase over last year.
- HAT's total revenue increased 34% over last year to HK\$2,486 million.
- 3 Group overall achieved a major milestone of its first full year positive EBIT result of HK\$2,931 million, a 133% turnaround from last year's LBIT.

The Group's telecommunications division consists of a 65.06% interest in Hutchison Telecommunications Hong Kong Holdings ("HTHKH"), which is listed on SEHK, Hutchison Asia Telecommunications ("HAT") and the 3 Group businesses in Europe and Australia. HTHKH holds the Group's interests in mobile operations in Hong Kong and Macau, as well as fixed-line operations in Hong Kong. HAT holds the Group's interests in mainly 2G mobile operations in Indonesia, Vietnam and Sri Lanka. The 3 Group is one of the world's leading operators of 3G mobile telecommunications technology with businesses in six countries across Europe and in Australia.

3 Shop, the United Kingdom.



### Telecommunications – established businesses

	2010 HK\$ millions	2009 HK\$ millions	Change
Total Revenue	12,366	10,304	+20%
EBIT	(1,598)	(1,989)	+20%

The 3 Concept Store newly opened in Central, Hong Kong, embodies the compelling simplicity and convenience of the integrated communication services in the new fibre-optic era.



### Hutchison Telecommunications Hong Kong Holdings

HTHKH announced its 2010 turnover of HK\$9,880 million and profit attributable to shareholders of HK\$755 million, a 17% and 61% increase respectively over last year. Both mobile and fixed-line operations reported improved results compared to last year. HTHKH contributed 4% and 3% respectively to total revenue and EBIT of the Group's established businesses.

The mobile operations in Hong Kong and Macau achieved a 25% increase in combined turnover to HK\$6,950 million in 2010 compared to HK\$5,578 million in 2009. The improved results were mainly due to continuing demand for data usage from high-end customers together with higher roaming revenue from more travelling and stronger sales of smartphones. The combined mobile customer base, on an active basis, was approximately 3.2 million as at 31 December 2010, and over 60% are postpaid customers.

The fixed-line telecommunications business in Hong Kong continues to progress, reporting a 2% increase in turnover to HK\$3,286 million in 2010 compared to HK\$3,221 million in 2009. This was mainly due to continuing traffic growth, partially offset by lower interconnection revenue following governmental deregulation of fixed and mobile interconnection arrangements in 2009.

## Hutchison Asia Telecommunications

HAT, a wholly-owned unlisted subsidiary after 24 May 2010, consists of the Group's start-up mobile operations in Indonesia and Vietnam as well as mobile operations in Sri Lanka. Total revenue increased 34% over last year to HK\$2,486 million and LBIT of HK\$2,688 million was in line with last year. At 31 December 2010, HAT had a mobile customer base of 25.7 million, representing a 101% increase over last year. HAT contributed 1% and a negative 7% respectively to the total revenue and EBIT of the Group's established businesses.

In Indonesia, the business continued to grow and now serves Bali, Lombok, Sumatra, Kalimantan, Sulawesi and Java, covering 81% of the country's population with 2G or 3G services. The customer base at the end of 2010 increased 91% and LBIT increased 17% compared to last year, mainly due to the start-up costs for the operations, partially offset by a profit of HK\$251 million on disposal of telecommunication tower assets.

In Vietnam, in its second year of operations, the business continued to grow and the customer base increased 190% over last year. Vietnam reported a positive EBIT result for the year, including one-time compensation contributions of HK\$669 million (2009 - HK\$nil). Excluding this one-time contribution, LBIT increased 43%, reflecting a full year's network cost incurred in 2010.

In Sri Lanka, the business continued to face a difficult operating environment and although the customer base increased 76% compared to last year, LBIT was 61% higher than last year as a result of price competition.

The disposal of the Thailand operation was completed in January 2011.



3 Store agents in Indonesia taking care of their customers' every need.

## Telecommunications – 3 Group

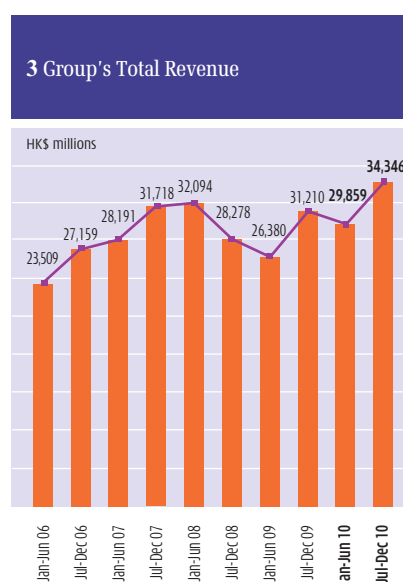
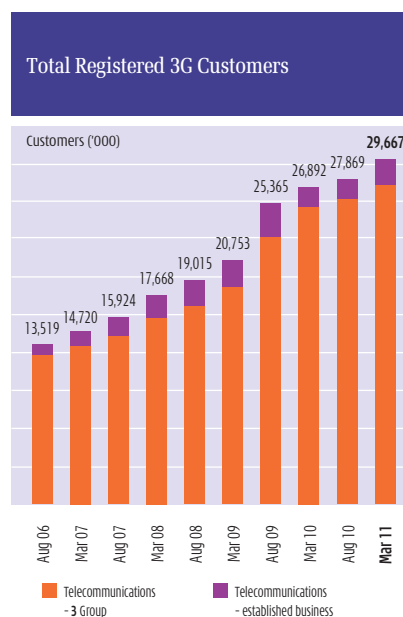
	2010 HK\$ millions	2009 HK\$ millions	Change
Total Revenue	64,205	57,590	+11%
EBIT / (LBIT)	2,931	(8,922)	+133%

The 3 Group comprises the 3G mobile operations in Italy, the UK, Sweden, Denmark, Austria, Ireland and the Group's share of the Australian operation.

In 2010, the 3 Group overall continued to grow its customer and revenue bases, reduce operating losses and reduce cash outflows by focusing on acquiring higher value smartphones and mobile broadband access customers, stabilising churn and implementing cost reduction measures mainly through network and cell sites synergies. 3 Group has maintained its 3G market leading position in the countries it operates in.

The 3 Group reported in local currencies, a 10% growth in total revenue as a result of the growth in the customer base, particularly in the smartphones and mobile broadband access segments. After translation to Hong Kong dollars, 3 Group total revenue increased 11% from 2009 to HK\$64,205 million. The 3 Group overall achieved a major milestone of EBIT positive operational results in the second half of 2010 with all operations, except 3 Ireland, achieving EBIT positive operating results in this period. 3 Group achieved the first full year positive EBIT result of HK\$2,931 million, an HK\$11,853 million or 133% turnaround from last year's LBIT of HK\$8,922 million. EBIT in 2010 includes a one-time substantial benefit of £500 million (approximately HK\$6,010 million) arising from a revised 3 UK network sharing arrangement whereby 3 UK received the right of use of approximately 3,000 cell sites, free of acquisition and future operating costs, partially offset by one-time provisions of £311 million (approximately HK\$3,742 million) mainly related to the restructuring of 3 UK's network infrastructure. EBIT also includes a one-time substantial benefit of €146 million (approximately HK\$1,489 million) with reference to the assignment of two blocks of 5MHz of 1,800 MHz spectrum. The addition of these valuable assets will provide a significant contribution to the 3 Group's competitive position and cost saving initiatives.

The Group's registered 3G customer base (including the 3G customers of HTHKH) grew 13% during the year to total over 29.1 million at 31 December 2010 and currently totals over 29.6 million, reflecting continued customer growth across all 3 Group operations. The proportion of active customers in the 3 Group's registered customer base and contract customer base was approximately 82% and 98% respectively at the end of the year, compared to 84% and 97% at the end of 2009. Management continues to focus on managing churn, which has stabilised at an average monthly customer churn rate of 2.7% in 2010, consistent with 2009. The proportion of contract customers as a percentage of the registered customer base has decreased moderately from 54% last year to 52% at the end of 2010. All operations within the 3 Group achieved solid customer growth and increased their respective market share in 2010.







INQ unveils its new handset, the INQ Cloud Touch, at the Mobile World Congress 2011 in Barcelona.

3 Group's ARPU, on a 12-month trailing average active customer basis, overall increased by 5% to €29.67 compared to 2009. In local currencies, ARPU decreased 5% compared to 2009, primarily due to regulated interconnection and international roaming fee reductions in the UK and lower 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 2010. Average non-voice revenue per active user as a percentage of ARPU for 2010 increased to 41%, compared to 38% in 2009. At 31 December 2010, approximately 6.0 million customers, representing 22% of the total 3 Group customer base, have mobile broadband access, an increase of 32% from last year. In addition, the growth in non-voice revenues is also supported by the greater supply of high quality smartphones resulting in an increased focus on acquisition of smartphone customers by the 3 Group. These acquisitions represent around 13% of the total gross additions in the year.

Customer acquisition costs and retention costs ("CACs") totalling HK\$17,907 million in 2010 were 3% higher than 2009 mainly due to an increase in the number of customers acquired and retained during the year, particularly the acquisition of smartphone customers in the second half of the year, partially offset by a 14% reduction in the unit cost to acquire a customer, averaging €91 per customer, on a 12-month trailing basis, compared to €106 for 2009.

3 Group achieved positive EBITDA after all CACs of HK\$8,718 million, an increase of HK\$8,542 million compared to the EBITDA last year of HK\$176 million. This significant increase is mainly due to an enlarged customer base, cost savings from outsourcing activities, stringent cost controls, and effective working capital management.

Depreciation and amortisation expense, which mainly includes the depreciation of networks and amortisation of content and other rights increased 5% to HK\$9,544 million in 2010.

## Operations Review – Telecommunications

### Key Business Indicators

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

	Customer Base					
	Registered Customers at 28 March 2011 ('000)			Registered Customer Growth (%) from 31 December 2009 to 31 December 2010		
	Prepaid	Postpaid	Total	Prepaid	Postpaid	Total
Italy	5,844	3,252	<b>9,096</b>	4%	-1%	<b>2%</b>
Australia <sup>(1)</sup>	3,170	4,256	<b>7,426</b>	11%	9%	<b>10%</b>
United Kingdom	3,339	3,898	<b>7,237</b>	51%	7%	<b>23%</b>
Sweden & Denmark	252	1,654	<b>1,906</b>	29%	18%	<b>19%</b>
Austria	279	862	<b>1,141</b>	34%	23%	<b>26%</b>
Ireland	391	261	<b>652</b>	39%	27%	<b>34%</b>
<b>3 Group Total</b>	<b>13,275</b>	<b>14,183</b>	<b>27,458</b>	<b>16%</b>	<b>8%</b>	<b>12%</b>
Hong Kong and Macau <sup>(2)</sup>	628	1,581	<b>2,209</b>	151%	10%	<b>28%</b>
<b>Total</b>	<b>13,903</b>	<b>15,764</b>	<b>29,667</b>	<b>19%</b>	<b>8%</b>	<b>13%</b>

	Customer Service Revenue							
	Revenue for the twelve months ended 31 December 2010 (millions)					Growth (%) compared to the year ended 31 December 2009		
	Prepaid	% of total Revenue	Postpaid	% of total Revenue	Total	Prepaid	Postpaid	Total
Italy	€343.1	20%	€1,362.3	80%	<b>€1,705.4</b>	-16%	10%	<b>4%</b>
Australia <sup>(3)</sup>	A\$536.9	24%	A\$1,664.5	76%	<b>A\$2,201.4</b>	69%	6%	<b>17%</b>
United Kingdom	£169.9	12%	£1,234.5	88%	<b>£1,404.4</b>	12%	-7%	<b>-5%</b>
Sweden & Denmark	SEK192.3	3%	SEK6,280.6	97%	<b>SEK6,472.9</b>	47%	16%	<b>17%</b>
Austria	€7.4	4%	€199.9	96%	<b>€207.3</b>	48%	18%	<b>19%</b>
Ireland	€19.7	22%	€70.2	78%	<b>€89.9</b>	3%	22%	<b>17%</b>

	12-month Trailing Average Revenue per Active User ("ARPU") <sup>(4)</sup> to 31 December 2010						
	Total				Non-voice		
	Prepaid	Postpaid	Blended	% Variance compared to 31 December 2009	ARPU	% of total ARPU	
Italy	€10.04	€35.76	<b>€23.60</b>	-	<b>€9.28</b>	39%	
Australia <sup>(3)</sup>	A\$30.83	A\$70.83	<b>A\$54.02</b>	-3%	<b>A\$21.74</b>	40%	
United Kingdom	£8.45	£29.36	<b>£22.60</b>	-16%	<b>£9.16</b>	41%	
Sweden & Denmark	SEK115.53	SEK348.78	<b>SEK329.05</b>	-5%	<b>SEK142.26</b>	43%	
Austria	€9.39	€22.93	<b>€21.80</b>	-9%	<b>€11.27</b>	52%	
Ireland	€14.47	€32.25	<b>€25.41</b>	7%	<b>€13.99</b>	55%	
<b>3 Group Average</b>	<b>€14.28</b>	<b>€38.74</b>	<b>€29.67</b>	<b>5%</b>	<b>€12.13</b>	<b>41%</b>	
<b>3 Group Average (without foreign exchange impact)</b>	<b>€12.72</b>	<b>€35.40</b>	<b>€26.99</b>	<b>-5%</b>	<b>€11.04</b>	<b>41%</b>	

Note 1: Active customers (including customers of mobile virtual network operators ("MVNOs")) at 31 December 2010 as announced by listed subsidiary HTAL, updated for net additions to 28 March 2011.

Note 2: Active customers at 31 December 2010 as announced by listed subsidiary HTHKH, updated for net additions to 28 March 2011.

Note 3: Revenue and ARPU (excluding ARPU from MVNOs) at 31 December 2010 as announced by listed subsidiary HTAL.

Note 4: ARPU equals total monthly tariff revenue divided by the average number of active customers during the period, where an active customer is one that has generated revenue from either an outgoing or incoming call or 3G services in the preceding three months.



Sales of smartphone and mobile broadband devices have been on the rise over the past several years.

## Italy

The Group has a 97.4% interest in 3 Italia at 31 December 2010. The registered customer base grew 2% in 2010 to total over 9.0 million at 31 December 2010 and currently stands at approximately 9.1 million. 3 Italia maintained its focus on acquiring and retaining higher value contract customers, which represented 36% of the registered base at the end of 2010 (2009 - 37%), and expanding its mobile broadband access customer base which has increased 30% during the year. Active customers, as a proportion of the total registered customer base was 68% at 31 December 2010, compared to 69% last year. Of the contract customer base which contributed 80% of the revenue base, 96% is active compared to 92% last year. Average monthly customer churn rate decreased from 2.7% in 2009 to 2.4% in 2010, largely due to the improvement in the churn rate of non-contract customers decreasing from 2.9% last year to 2.4%. ARPU, on a 12-month trailing average active customer basis, increased marginally from €23.49 to €23.60 in 2010, mainly due to the change in customer mix and activities towards higher value contract customers. The proportion of revenue from the higher margin non-voice services was 39% of ARPU, in line with 2009. 3 Italia's customer service revenue, in local currency, increased 4% mainly due to the factors mentioned above.

3 Italia's performance continued to improve, reporting a milestone EBIT positive operating result for the second half of 2010. 3 Italia also reported its first full year EBIT positive results of €96 million, a 121% turnaround from the comparable LBIT of €447 million reported last year. The full year result reflects lower amortisation and a one-time substantial benefit of €146 million (approximately HK\$1,489 million) with reference to the assignment of two blocks of 5MHz of 1,800MHz spectrum as well as cost savings from outsourcing activities, stringent cost controls and lower CACs. The addition of this valuable asset will provide a significant contribution to the competitive position and cost saving initiatives of 3 Italia.



## Operations Review – Telecommunications

### Australia

The Group's 87.87% owned, listed subsidiary in Australia, Hutchison Telecommunications (Australia) Limited ("HTAL"), announced service revenue attributable to HTAL from its 50% owned associated company Vodafone Hutchison Australia of A\$2,201 million, a 17% increase over the previous year, and a profit for the year attributable to shareholders of A\$73 million, a decrease of 84% from last year's results. Excluding the one-time gain in 2009 from the merger of 3 Australia with Vodafone Australia of A\$587 million, HTAL reported a profit of A\$73 million, a turnaround of 161% compared to last year's comparable loss of A\$120 million, and achieved EBIT positive operating results in both the first and second halves of 2010. HTAL's active customer base grew 10% from 31 December 2009 to total over 7.5 million at 31 December 2010 and currently stands at 7.4 million. This base includes mobile broadband access customers which increased 27% to 855,000. ARPU, on a 12-month trailing average active customer basis, declined 3% to A\$54.02 in 2010 mainly due to the higher proportion of non-contract customers. Revenue from non-voice services attributable to HTAL increased 28% to A\$867 million. Non-voice services now contribute 40% of ARPU, an increase from 37% in 2009.

### United Kingdom

The registered customer base of wholly-owned subsidiary, 3 UK has grown by 23% from 31 December 2009 to total over 6.8 million at 31 December 2010 and currently totals over 7.2 million. The growth reflects a 34% increase in mobile broadband access customers to over 2.0 million. Contract customers decreased to 55% of the registered base at the end of 2010 (2009 - 64%). Active customers, as a proportion of the registered base, were 81% at 31 December 2010, compared to 89% last year. Of the contract customer base which contributed 88% of the revenue base, 97% are active, in line with last year. The average monthly customer churn rate decreased from 3.2% in 2009 to 2.9% in 2010, while the average monthly churn rate of contract customers increased marginally from 2.0% last year to 2.1% this year. ARPU, on a 12-month trailing average active customer basis, declined from £26.76 in 2009 to £22.60, mainly due to the adverse impact of the regulated interconnection and international roaming fee reductions in the UK and also the increase in the proportion of non-contract customers in the customer base and the increase in 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 41% of ARPU compared to 36% in 2009. 3 UK's customer service revenue, in local currency, decreased 5% during the year to £1,404 million, reflecting the adverse impact of the regulated interconnection and international roaming fee reductions and the increasing proportion of non-contract and mobile broadband customers as mentioned above.



3 Austria opens three new stores.

3 UK's performance continued to improve, reporting a milestone EBIT positive operating result for the second half of 2010. 3 UK also reported its first full year EBIT positive results of £173 million, a 296% turnaround from the comparable LBIT of £89 million reported last year. The full year improvement is due to the above factors and a one-time substantial benefit of £500 million (approximately HK\$6,010 million) arising from a revised 3 UK network sharing agreement due to 3 UK received the right of use of approximately 3,000 cell sites, free of acquisition and future operating costs, partially offset by one-time provisions of £311 million (approximately HK\$3,742 million), mainly related to the restructuring of 3 UK's network infrastructure. The addition of this valuable asset will provide a significant contribution to the competitive position and cost saving initiatives of 3 UK.

### Other 3 Group Operations in Europe

In Sweden and Denmark, where the Group has a 60% interest in its 3 Group operations, the combined registered customer base grew 19% to over 1.8 million at 31 December 2010 and currently totals over 1.9 million. Contract customers at 31 December 2010 represented 87% of the combined registered customer base, a decrease from 88% last year. Active customers, as a proportion of the total combined registered customer base and the combined contract customer base at 31 December 2010, were 96% and 100% respectively, and are comparable to the 95% and 100% respectively, reported last year. The average combined monthly customer churn rate was 2.3% in 2010 compared to 2.1% in 2009. Although ARPU, on a 12-month trailing average active customer basis, decreased 5% to SEK329.05, combined customer service revenue in Swedish Kronas ("SEK") increased 17% compared to 2009, primarily due to the enlarged customer base. The proportion of revenue from the higher margin non-voice services increased from 42% of ARPU in 2009 to 43% in 2010.

3 Sweden and 3 Denmark's performance continued to improve, reporting EBIT positive results in the first half of the year and also for the full year of SEK137 million, which included a provision of SEK110 million for the costs of withdrawing from the Norwegian market. Excluding the above provision, the underlying EBIT of SEK247 million represented a 156% turnaround from the LBIT of SEK439 million last year. This improved result reflects higher gross margins and tight cost controls.

The registered customer base of 3 Austria increased by 26% during 2010 to over 1.0 million at 31 December 2010 and currently totals over 1.1 million. The proportion of contract customers at 31 December 2010 represented 76% of the total registered customer base, a decrease compared to the 78% reported last year. Active customers as a proportion of the total registered customer base remained at 83% unchanged from 2009, while active customers as a proportion of the contract customer base at 31 December 2010 also remained stable at 99% in both years. The average monthly customer churn rate decreased from 1.3% in 2009 to 1.0% in 2010. ARPU, on a 12-month trailing average active customer basis, declined 9% from €23.87 in 2009 to €21.80 in 2010, mainly due to price competition. Although ARPU declined, customer service revenue increased 19% mainly due to the enlarged customer base. The proportion of revenue from the higher margin non-voice services increased from 49% of ARPU in 2009 to 52% in 2010.

3 Austria reported EBIT positive results in the first and second halves of the year. EBIT amounted to €4.1 million, a turnaround of 105% from last year, mainly due to an enlarged customer base, improved gross margins and cost savings from the sale and leaseback of its network infrastructure.

## Operations Review – Telecommunications

### Other 3 Group Operations in Europe *(continued)*

Despite the continuing recession in Ireland, the registered customer base of 3 Ireland grew by 34% during 2010 to over 620,000 at 31 December 2010 and currently totals over 652,000. The proportion of contract customers at 31 December 2010 represented 39% of the total registered customer base, a decrease compared to the 41% reported last year. Active customers, as a proportion of the total registered customer base, was 50% at 31 December 2010, compared to 60% last year, while active customers as a proportion of the contract customer base at 31 December 2010 increased to 87% from 84% in 2009. The average monthly customer churn rate increased slightly from 1.0% in 2009 to 1.2% in 2010. ARPU, on a 12-month trailing average active customer basis, increased 7% from €23.83 in 2009 to €25.41 in 2010, mainly due to the increase in data services on smartphones. The proportion of revenue from the higher margin non-voice services increased from 53% of ARPU in 2009 to 55% in 2010. 3 Ireland's customer service revenue, in local currency, increased 17%. LBIT of €78 million was 112% higher compared to last year due to higher operating expenses mainly due to the roll out of the new national broadband scheme with its related costs and depreciation and also increased CACS to support the growth of the customer base.

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. In December 2010 the Irish Government announced that 3 Ireland reached the major milestone of 100% enablement to plan of the national broadband scheme.

### 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 on assets under development, amounted to HK\$12,306 million, a decrease of 6% when compared to 2009. 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\$8,454 million for the year, an increase of 4%, mainly due to higher profits before tax in retail, property and hotels as well as ports and related services divisions, higher deferred tax on profit on property revaluations, partially offset by the one-time 2009 provision for tax related to the disposal of its Israel telecommunications operation in 2009.

### Summary

Following the financial crisis, the Group faced a challenging year in 2010, with the various government policies to combat the crisis affecting all industries and countries to varying degrees. Despite these challenges, the Group's businesses performed well and reported strong and growing profits in 2010. The Group will continuously monitor the operations and focus on growth of the businesses as well as cost controls to meet upcoming challenges.

The 2010 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, 29 March 2011