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Abstract

Each year the United Nations Conference on Trade and Development produces a report on foreign direct investment (FDI). This report highlights trends on FDI, and identifies the world's largest transnational corporation (TNC). Prominent among the largest TNS are telecommunication companies such as Vodafone and Telefónica. Less obvious due to its 'diversified' description is Hutchison Whampoa, a large conglomerate with a long history of an active presence in the telecommunications industry. This paper charts the history of this involvement before focusing on whether its recent investment in third-generation (3G) licences will be as successful as previous its ones. Through analysing the 3G investments that it has made, this paper argues that Hutchison Whampoa is unlikely to enjoy the same success with these 3G investments as it has in the past with Orange and its Indian operations

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Third time lucky? An Exploration of Hutchison Whampoa's Involvement in the Mobile Telecommunications Industry

1. Introduction

Given the size and global nature of the telecommunications industry, it is no surprise that several telecommunications companies can be found listed among the 100 largest non-financial corporations. These comprise Vodafone (3rd), Telefónica (18th) and TeliaSonera (75th) (UNCTAD, 2010). However, a closer examination of the list reveals another significant player in the global telecommunications industry, namely Hutchison Whampoa.

With assets of more than US$70 billion, Hutchison Whampoa is described as 'diversified' and hence is not readily associated with the telecommunications industry. Nevertheless, it has had a long, significant and arguably quite successful presence in the industry. Since the late 1980s, Hutchison Whampoa has invested in several sectors of the industry – mobile, fixed-wire, cable and equipment – and has actively managed its investments, expanding into new markets while divesting itself of others.

It is the continued presence of Hutchison Whampoa in the telecommunications industry that is the focus of this paper. As a diversified company or conglomerate, it is reasonable to expect that Hutchison would move capital between different industries as it seeks to maximize its returns. Such a strategy would be in keeping with conglomerates such as Gulf & Western, Hanson or ITT.[1] In contrast, Hutchison seems to be willing to re-invest in the telecommunications sector, perhaps because two of its previous investments – in Orange plc in the UK and in the Indian mobile market – were highly profitable. Moreover, there does not appear to be any desire on its part to narrow its focus to overcome what has been called the 'diversification discount'.[2]

For example, after decades of diversification, ITT narrowed its focus twice. In 1995, the company shed many of the subsidiaries accumulated under Harold Geneen in order to focus on three areas, before announcing in January 2011 that it would again split itself up (Crooks and Thomas, 2011). Hanson also broke itself up, dividing into four listed companies (Stonham, 1997a & 1997b). This desire for focus is also evident in conglomerates with a narrower focus. For example, Philip Morris separated its tobacco business from its confectionary and food businesses in 2001 when it spun off Kraft Foods[3], which, in turn, has announced its own separation into two businesses (Thomas, Rappeport, Pickford and Lucas, 2011).

While some conglomerates have broken themselves up, others appear to be thriving in a wide range of countries. Financial Times (2011) identifies conglomerates in both emerging markets (Hong Kong and Qatar) and developed countries (Germany and Japan), while Khanna and Palepu (1999) find them present in Korea, India and Turkey. From Chang (2006) it is clear that conglomerates exist throughout Asia. It is within this context of not needing to narrow down its focus that the willingness of Hutchison Whampoa to invest repeatedly in the telecommunications industry needs to be placed. Hutchison Whampoa has continued to invest even though it has found building a third-generation (3G) mobile business from scratch more challenging and protracted than anticipated.[4] It has used the proceeds from the sale of Orange and its Indian mobile operations to fund this continued investment, and while it has (arguably) invested successfully in mobile telecommunications in the past, this does not guarantee that it will be able to repeat this feat.

With this in mind, the remainder of the paper is divided into five sections. A brief overview of Hutchison Whampoa is presented in Section 2, and is followed in Section 3 by an outline of how the company's presence in the telecommunications industry has evolved over time. In Section 4, Hutchison's presence is explored along three dimensions, namely geographical footprint, number of subscribers and financial performance. The issues raised in the previous sections are discussed in Section 5, with conclusions being drawn in the final section of the paper.

2. Hutchison Whampoa

Hutchison Whampoa is a Hong Kong-based conglomerate. According to the most recent FT Global 500 ranking, it ranks 150th among the largest companies in the world with sales of $26.9 billion and net income of $2.57 billion (Financial Times, 2011). The present size and scope of Hutchison Whampoa is the result of diversification and significant internationalization. During the period 1995 to 2010, Hutchison Whampoa's revenues grew almost tenfold from HK$35 billion to HK$325.9 billion (Hutchison Whampoa, 1997 and 2011a). Profits, however, did not grow to the same extent over this period. While Hutchison Whampoa was consistently profitable, profits fluctuated between a low of HK$8.7 billion in 1998 to a high of HK$117.3 billion in 1999 (Hutchison Whampoa, 1999 and 2000). Setting aside the profits reported in 1999, which were largely due to the one-off contribution from the sale of the company's stake in Orange, there has been a general increase in the company's profitability.

As befits a conglomerate, Hutchison Whampoa is engaged in a diverse array of industries and its structure can be described as complex. Hutchison Whampoa divides its operations into five areas, namely ports and related services, property and hotels, retail, telecommunications, and energy, infrastructure, investments and others. These activities are organised into a bewildering array of holding companies, subsidiaries and joint ventures. Some, but by no means all, of these activities are wholly-owned and eight subsidiaries and associated companies are listed on stock exchanges.[5]

It is also worth noting that Hutchison Whampoa is itself 49.9 per cent-owned by Cheung Kong Holdings, which describes itself as a being the 'flagship of the Cheung Kong Group' that encompasses Hutchison Whampoa as well as, among others, Cheung Kong Infrastructure Holdings Limited, Hutchison Harbour Ring Limited and Power Assets Holdings Limited.[6] Some, but not all, of the companies identified as being part of the Cheung Kong Group are also part-owned by Hutchison Whampoa.

Due to the small size of its home market and the nature of the industries in which it has invested, Hutchison Whampoa is also highly internationalized. Since 1990, UNCTAD has published details of the largest multinational corporations[7] in terms both of size (revenues, assets etc.) and the extent to which they are internationalized. Hutchison Whampoa entered the list of the largest 100 multinational corporations by assets in 1999 at number 48 (UNCTAD, 2001). The following year, Hutchison Whampoa rose to be the 14^{th}-largest multinational corporation when measured by foreign assets (UNCTAD, 2002). In subsequent years, Hutchison Whampoa's position in the rankings fell away, so that in 2008 it was the 25^{th}-largest multinational corporation when measured by foreign assets (UNCTAD, 2010).

3. Hutchison Whampoa's involvement in the telecommunications industry

Figure I depicts the current scope of Hutchison Whampoa's involvement in the telecommunications industry. Hutchison's involvement is undertaken through a series of holding companies which have, over the years, experienced significant changes. Companies have not only been bought and sold but have also been floated on stock exchanges before being bought back by Hutchison Whampoa. These events are outlined in Table 1.

[Insert Figure I about here]

[Insert Table I about here]

The manner in which Hutchison's involvement in the industry has evolved, coupled with its propensity to move assets between companies and engage in merger and acquisition activities, means that disentangling these developments is not straightforward. Each of the holding companies identified on Figure 1 will be discussed in turn, beginning with Hutchison Telecommunications Hong Kong Ltd. This company can trace its origins back to the 1996 creation of Hutchison Telecommunications (Hong Kong) to manage all of Hutchison Whampoa's telecommunication businesses in Hong Kong (Hutchison Whampoa, 1997). At that time, these consisted of mobile, fixed-wire and paging services. In 1999, half of the fixed-wire and Internet operations in Hong Kong were sold to Global Crossing, with the new company being renamed Hutchison Global Crossing (Hutchison Whampoa, 2000). Parts of the company's mobile operations were also sold in the same year; a 19 per cent stake in Hutchison Telephone was sold to NTT DoCoMo with the consequence that Hutchison Telecommunications (Hong Kong) held a 55.9 per cent stake and Motorola 25.1 per cent (Hutchison Whampoa, 2000). Just a year later, however, Hutchison acquired the stake held by Motorola, thereby increasing its ownership of Hutchison Telephone to 81 per cent (Hutchison Whampoa, 2001). Confusingly, Hutchison Whampoa then states that it owns 74.63 per cent of Hutchison Telephone in the 2001 Annual Report without explaining the decrease (Hutchison Whampoa, 2002).

In September 2003, Hutchison Whampoa acquired 37 per cent of Vanda, an IT company listed on the Hong Kong stock exchange (Hutchison Whampoa, 2004). Shortly afterwards, in March 2004, Vanda acquired outright both Hutchison Global Crossing and PowerCom Network Hong Kong. With the merger of these three businesses, Vanda was renamed Hutchison Global Communication Holdings, with Hutchison Whampoa (through Hutchison Telecommunications International Ltd) becoming the majority shareholder.[8] In August 2005, Hutchison Telecommunications International Ltd (HTIL hereafter) purchased the free float of Hutchison Global Crossing (Hutchison Whampoa, 2006: 47). Not only did this de-list Hutchison Global Crossing but it also reduced Hutchison Whampoa's stake in HTIL to 69.1 per cent.

As a consequence of the aforementioned series of events, Hutchison Whampoa had a stake in HTIL, which, in turn, wholly owned Hutchison Global Crossing. In May 2009, this structure was changed when HTIL divested Hutchison Global Crossing – re-listed as Hutchison Telecommunications Hong Kong Holdings – to its shareholders (Hutchison Whampoa, 2010a: 48). As a result of this divestment, Hutchison Whampoa became a direct shareholder of the company with a 62.6 per cent stake. This company provides fixed-wire and mobile telecommunication services within Hong Kong and Macau.

Another one of the holding companies identified in Figure I is Hutchison Asia Telecommunications Ltd. Until 2010, this was the company known as HTIL and it was one of the principal vehicles through which Hutchison Whampoa had invested in the telecommunications industry. HTIL was floated in October 2004 as a holding company encompassing a disparate set of fixed-wire and mobile assets in eight countries: Hong Kong, Israel, India, Macau, Sri Lanka, Ghana, Paraguay and Thailand (Hutchison Whampoa, 2005: 48). In other words, neither the Australian nor West European mobile operations were included in the assets floated as HTIL. The 2004 Annual Report states that after the flotation Hutchison Whampoa owned 70 per cent of the company.

The purchase of the remaining free shares of Hutchison Global Crossing Holdings by HTIL had the effect of reducing the percentage of the company owned by Hutchison Whampoa, as did the sale of a 19.3 per cent strategic stake in HTIL to Orascom Telecom (Hutchison Whampoa, 2006: 47). As a result of these actions, Hutchison Whampoa's stake in HTIL fell to 49.8 per cent. In 2007, Hutchison Whampoa acquired shares in the open market to once more become the majority shareholder in HTIL (Hutchison Whampoa, 2008: 51).

Subsequent to the flotation of HTIL, the company entered and exited various markets. Its operations in Paraguay (2005), Ghana (2008) and Israel (2009) were sold while it entered the Indonesian market (2005) and launched services in Vietnam (2009). In March 2008, the company sold its base stations to PT Profesional Telekomunikasi for US$500 million (Hutchison Telecommunications International Ltd, 2008). After leasing back capacity on the base stations, a one-off gain of US$236 million was recorded by HTIL. Although this transaction was included in HTIL's 20-F filing with the Securities & Exchange Commission (SEC) in May 2008, it was subsequently challenged and ultimately amended. The SEC questioned how the sale and lease-back was treated in the company's accounts in August 2008, with the SEC viewing the transaction as a finance lease. HTIL re-stated its accounts, filing a new 20-F with the SEC in May 2010.

The SEC inquiry coincided with the decision by Hutchison Whampoa to 'privatize' HTIL. Indeed, the 2009 Annual Report states that HTIL agreed to amend its accounts so as not to delay the shareholder vote on its privatization (Hutchison Whampoa, 2010a: 50). This privatization would see Hutchison Whampoa acquire the outstanding stock in HTIL at HK$2.20 per share (Hutchison Whampoa, 2010b). The proposal document highlighted two pertinent issues. The first was that the remaining operations of HTIL, once those sold in India and Israel and spun off in Hong Kong and Macau were taken into account, lacked scale. The second was that none of the remaining operations were among the largest three in their respective markets and although Hutchison Whampoa was confident of their long-term potential, achieving this potential would require investment in the short/medium term.

When coupled with the fall in the market capitalization of HTIL from HK$95.6 billion to HK$7.9 billion and the limited 'free float' of its shares, Hutchison Whampoa argued that it was no longer appropriate for it to be listed on the stock exchange. Moreover, in removing the pressures associated with being a public company, Hutchison Whampoa stated that it would be better placed to manage the business and make the appropriate investment decisions (Hutchison Whampoa, 2010b). On 24 May 2010, Hutchison Whampoa announced that the Grand Court of the Cayman Islands, where HTIL was incorporated, had approved the privatization of the company, and that it was expected to become effective on the following day (Hutchison Whampoa, 2010c and 2010d). When the privatization was effected, HTIL was de-listed from the Hong Kong and New York stock exchanges, and subsequently changed its name to Hutchison Asia Telecommunications (HAT hereafter). With these changes, HAT would become a wholly-owned subsidiary of Hutchison Whampoa, while Hutchison Telecommunications Hong Kong Holdings would be a majority-owned subsidiary.

The third vehicle through which Hutchison Whampoa has invested in the telecommunications industry is 3 Group. The 3 Group encompasses the company's 3G investments, primarily in Western Europe but also in Australia. Although Hutchison Whampoa only began to use the term '3 Group' in its 2004 Annual Report, the origins of the company's involvement with 3G can be found in 2000. Over the course of 2000, Hutchison Whampoa acquired 3G licences in four countries: Austria, Italy, Sweden and the UK (Hutchison Whampoa, 2001: 28ff). Hutchison Whampoa explicitly states that it is reinvesting part of the proceeds from the sale of Orange plc. in the acquisition of 3G licences. In Austria, the wholly-owned Hutchison 3G Austria paid €139 million for its licence, while in Italy and the UK the sums paid were considerably more at €3,254 million and £4,385 million respectively (Hutchison Whampoa, 2001: 29). In contrast, a nominal fee was paid for the Swedish 3G licence.

The licences in Italy, Sweden and the UK were acquired through joint ventures. In November 2000, Andala SpA, a consortium headed by Tiscali, was awarded a 3G licence (Curwen and Whalley, 2006a: 629). Three months later, Hutchison Whampoa acquired 78.3 per cent of the company from Tiscali and other shareholders, changing the name of the company to H3G Italy. In the UK it sold 35 per cent of Hutchison 3G UK to NTT DoCoMo and KPN Mobile after it had successfully won the licence (Hutchison Whampoa, 2001: 29) – further details of this transaction are set out below. In the case of Sweden, Hutchison Whampoa entered into a joint venture – Hi3G Access – with Investor AB, the investment company of the Wallenberg family. Hutchison Whampoa owns 60 per cent of Hi3G Access, with Investor AB owning the remainder (Hutchison Whampoa, 2001: 29f).

To offset the costs of rolling out a national infrastructure, Hi3G Access joined with two other 3G licence winners in Sweden, Orange Sverige and Vodafone, to form 3GIS. This company would build a 3G infrastructure covering the 70 per cent of the Swedish population living outside the three main urban areas of Gothenburg, Malmö/Lund and Stockholm/Uppsala. Hi3G Access is unusual as it has acquired 3G licences of its own in other Nordic markets. In September 2001, the company successfully bid DKr950 million for a 3G licence in Denmark (Hutchison Whampoa, 2002: 27), and NKr62 million for a 3G licence in Norway (Hutchison Whampoa, 2004: 27). Interestingly, the annual report states that the Norwegian business would be developed as an extension of those in Denmark and Sweden. In other words, Hutchison Whampoa viewed the three markets of Denmark, Norway and Sweden as being closely intertwined with one another.

The final West European market in which 3 Group is present is Ireland. In June 2002, the wholly-owned Hutchison 3G Ireland paid $50 million for the largest of the available licences (Curwen and Whalley, 2006a: 629). 3 Group is also present in Australia where Hutchison Whampoa became the majority shareholder of Hutchison Telecommunications Australia. Hutchison Whampoa's presence in Australia is outlined in the following section.

4. Operational performance

Geographical footprint

The geographical footprint of Hutchison is presented in Table II. This table identifies those countries in which Hutchison has invested, either directly or indirectly through one of its various holding companies. The first observation that can be made is that the number of countries in which Hutchison has been present at one time or another has fluctuated. Broadly speaking, the number of countries in which Hutchison was present increased (1995 to 2002) before stabilizing (2003 to 2007) and then slowly falling away (2008 to 2011) to the present total of 13. Secondly, the main geographical focus of Hutchison's various international investments has been in the Asia-Pacific region and Western Europe. Although the company has invested outside these two regions in countries such as Argentina, Ghana, Paraguay and the United States, these investments have been relatively short-lived. Hutchison entered these four countries only to leave a few years later. Nevertheless, the shortest time spent by Hutchison in a country was in Western Europe. In the cases of both Belgium and Switzerland, the company entered the market one year only to exit the next. As both investments were made by Orange plc, the exit from the market was due to the sale of that company to France Télécom.

[Insert Table II about here]

A third observation is that in the case of the UK, Hutchison exited the market only to re-enter it the following year. Hutchison exited the UK when it sold Orange only to re-enter the market in 2000 when it successfully participated in the 3G spectrum auction. Shortly after winning the fifth, and largest, 3G licence, Hutchison sold 35 per cent of the company to NTT DoCoMo (20 per cent) and KPN (15 per cent) for a total of £2.1 billion (NTT DoCoMo, 2000). However, the relationship between the three partners was problematic, with KPN refusing to contribute additional funds in early 2003 to Hutchison 3G UK (Leahy and Nutall, 2003: 31). In November of the same year, KPN agreed to sell back its shares to Hutchison for £90 million while in May 2004, NTT DoCoMo also agreed to sell its shares for £120 million. Hutchison completed the purchase of these shares in 2005 (Lau, 2005: 28).[9]

The equity held by Hutchison has also changed in other countries. Table II shows that in the case of India, Hutchison initially increased its ownership before expanding into other parts of the country. Hutchison launched its mobile operations in India in 1995, and was able to become the market leader in the Mumbai 'circle' (licence area) by the end of 1996 with more than 50,000 subscribers (Hutchison Whampoa, 1997). The 1996 annual report states that Hutchison had an effective 29.4 per cent stake in its Indian mobile business. During 1998, Hutchison increased its stake in its Indian mobile business – Hutchison Max Telecommunications – to 49.5 per cent, and subscribed to the preference shares of another company holding a large stake in Hutchison Max (Hutchison Whampoa, 1999: 26).

Purchases of other mobile operators expanded the geographical footprint of Hutchison Max in India. In 2000, it acquired a 49 per cent interest in three GSM operators in the New Delhi, Calcutta and Gujarat state circles (Hutchison Whampoa, 2001: 28), and further expanded in the following year when it paid $99 million for mobile licences in Karnataka, Andhra Pradesh and Chennai (Hutchison Whampoa, 2002: 28). In January 2006, it acquired BPL Mobile Cellular which, when combined with the pending purchases of BPL Mobile Communications and Essar Spacetel, would expand the company's footprint in India to 23 circles (Hutchison Whampoa, 2006: 47). In other words, Hutchison would have a substantial presence across India.

Unlike the case of India where Hutchison increased both its ownership and geographical footprint over time, the latter seems to be the driving force in Australia. Hutchison has been present in Australia since 1989 when it started offering paging services (Hutchison Telecommunications Australia, 2010). At some point after 1989 but before 1997, the company also began to offer GSM-based mobile services and had 143,000 subscribers by the end of 1997 (Hutchison Whampoa, 1998).[10] During 1997, Hutchison also increased its stake in its Australian joint venture from 56 per cent to 70 per cent (Hutchison Whampoa, 1998). In 1998, the company was awarded CDMA licences covering Sydney and Melbourne, and signed a national roaming agreement with Telstra in the following year (Hutchison Telecommunications Australia, 2010). 1999 also saw the initial public offering (IPO) of Hutchison Telecommunications Australia, raising A$235 million to fund the construction of the company's CDMA network (Hutchison Whampoa, 2000). As a result of the IPO, Hutchison's stake in its Australian business fell to 54 per cent.

In 2001, Hutchison Telecommunications Australia won 3G licences covering the country's five major cities and sold its GSM resale business to Singapore Telecom for A$41 million (Hutchison Whampoa, 2002). Network coverage was expanded by entering into an infrastructure sharing agreement with Telstra in 2004, with Hutchison receiving a one-off payment of A$450 million and a 50 per cent interest in the joint venture. A key component of the joint venture agreement was the subsequent expansion of network coverage to 96 per cent of the population. The CDMA network was closed in 2006 (Hutchison Telecommunications Australia, 2010), with services being delivered using 2G and, increasingly, 3G technologies.

Another joint venture was entered into in 2009, this time with Vodafone when the two companies merged their Australian mobile businesses to create Vodafone Hutchison Australia. Reflecting the difference in value between the two businesses, Vodafone paid Hutchison Telecommunications Australia A$587 million (Vodafone, 2009). This enabled the joint venture to be owned equally by the two companies. Although the creation of Vodafone Hutchison Australia was accompanied by the licensing of the ‘3’ brand, several commentators took the view that the brand would only be used in the short term, unlike that of Vodafone (Sainsbury, 2009; Vodafone, 2009). At the heart of the merger was the desire to improve the performance of both mobile businesses through expanding network coverage, gaining scale economies and combining their different strengths (Middleton, 2009; Sainsbury, 2009).

Geographical expansion within a country has also played a role in Thailand and the United States, albeit arguably to a lesser extent than in Australia or India. Hutchison has been present in Thailand since 2002. Its presence in the country, in terms of the structure and nature of the investments, is significantly influenced by the unique approach to the telecommunications sector that has been adopted in Thailand. Hutchison, through HTIL, held stakes in two companies in Thailand: Hutchison CAT Wireless Multimedia Ltd and BFKT (Thailand) Ltd (Hutchison Telecommunications International Limited, 2006). The former provided mobile telecommunication services using cdma2000 1xRTT while the latter was a network leasing company. Limits on the foreign ownership of companies in Thailand resulted in a complex organizational structure being adopted. As outlined in the 2005 Annual Report of HTIL, two companies owned Hutchison CAT: Hutchison Wireless (73.9 per cent) and CAT Telecom (26 per cent). In turn, 49 per cent of Hutchison Wireless was owned by HTIL and 41 per cent by GMRP (Thailand) Ltd. Three individual shareholders owned the remaining 10 per cent. The voting strength of the shares also differed; HTIL’s shares carried one vote per share while GMRP’s shares were considerably weaker at one vote per 20 shares. GMRP held the shares in Hutchison Wireless on behalf of HTIL, and its articles of association were such that HTIL could direct it to buy more equity in Hutchison Wireless or sell the shares that it held to another company that it designated.[11] Through this arrangement of cascading stakes, HTIL controlled a 36.2 per cent economic interest in Hutchison CAT. Although some of the equity stakes have changed in subsequent years, the structure as described remains essentially the same.

Within Thailand, the footprint of Hutchison CAT covered 25 out of the country’s 76 provinces (Hutchison Telecommunications International Ltd, 2008). Although these provinces accounted for the majority of Thailand’s economic output, a significant proportion of the population was obviously unable to access Hutchison CAT services. After technology trials in 2006, Hutchison CAT and CAT Telecom entered into a nationwide roaming agreement in 2007 that expanded the former’s scope to encompass all of Thailand (Hutchison Telecommunications International Ltd, 2008). While this widening of geographical coverage may have contributed to an increase in the number of Hutchison CAT subscribers and reduced churn between 2006 and 2008, revenues, in total and on a per user basis, fell over the same period (Hutchison Telecommunications International Ltd, 2009). Given this decline in revenues, it is not surprising that the 2009 Annual Report stated that the company was in discussions to exit the market (Hutchison Whampoa, 2010a: 50). In April 2010, CAT Telecom was given government approval to purchase Hutchison CAT for THB7.5 billion (Telegeography, 2010a). However, the appointment of a new board at CAT Telecom resulted in the acquisition initially being questioned before the government ordered CAT Telecom to pay no more than THB4 billion (Telegeography, 2010b, 2010c and 2010d). With Hutchison refusing to accept such a sum, the sale to CAT Telecom collapsed allowing True to acquire Hutchison's operations in Thailand for THB4.35 billion (Telegeography, 2010e). The sale was completed in early 2011 (Hutchison Whampoa, 2011; Telegeography, 2011a).

In 1997, Hutchison acquired minority stakes in two US-based mobile operators: Western Wireless Inc. and Western PCS Corp. (Hutchison Whampoa, 1998). In the following year, Western PCS Corp was re-branded as VoiceStream Wireless PCS, and expanded its geographical footprint by merging with two other mobile operators – Aerial Communications and Omnipoint – during 1999 and 2000 (Hutchison Whampoa, 2000). By the time these mergers had been completed, Hutchison's stake in VoiceStream had risen to 23 per cent (Hutchison Whampoa, 2000).[12] In July 2000, VoiceStream agreed to merge with Deutsche Telekom in a deal worth $50.7 billion plus the assumption of $4.2 billion of debt (Curwen and Whalley, 2004: 16). As a result of this deal, Hutchison received $885 million in cash plus shares in Deutsche Telekom amounting to 4.9 per cent of the company (Hutchison Whampoa, 2002: 29). Hutchison realized a profit of HK$30,000 million on the sale of VoiceStream to Deutsche Telekom, and subsequently sold its stake in Deutsche Telekom over a period of several years (The Economist, 2001; Hutchison Whampoa, 2002; Telegeography, 2003).

As noted above, the investments made by Hutchison in the United States were one of a handful made outside its main geographical focus of the Asia-Pacific region and Western Europe. Hutchison has made just a single investment in Africa, when in 1998 it acquired 80 per cent of Kasapa Telecom Ltd in Ghana (Hutchison Telecommunications International Limited, 2007). In December 2004, the company was awarded a 15-year replacement licence enabling CDMA-based services to be delivered. Hutchison acquired the remaining 20 per cent of the company in January 2005. In January 2008, Hutchison agreed to sell Kasapa to EGH International Limited for HK$583.5 million (Hutchison Telecommunications International Limited, 2008), completing the sale in July 2008 (Hutchison Telecommunications International Limited, 2009).

As well as investing in Africa, Hutchison has also invested in two Latin American markets. In the case of Paraguay, the annual reports of both Hutchison Whampoa and HTIL shed little light on the nature and scale of the business in this particular market. The first mention of Hutchison being present in Paraguay occurs in the 2000 Annual Report, but is not until the following year that sufficient details are provided to make it possible to state that the business was a 2G mobile operator 60 per cent owned by Hutchison (Hutchison Whampoa, 2002: 27). The 2G network covered the major cities of Paraguay. The business was sold for an undisclosed amount to América Móvil in July 2005 (Hutchison Telecom, 2005).

The second Latin American market in which Hutchison invested was Argentina. In Argentina, Hutchison provided mobile services through wireless local loop technologies (Hutchison Telecommunications International Ltd, 2006), and thus did not provide true mobile services as it did in other markets. Hutchison Argentina was a subsidiary of Hutchison Whampoa, so with the creation of HTIL an option to acquire the company was entered into in September 2004 (Hutchison Telecommunications International Ltd, 2006). This option ensured that Hutchison Argentina would continue to operate for three years and could not be sold to another company without both parties agreeing, enabling HTIL to evaluate the viability of its technology and thus determine whether it should purchase the company. This option does not appear to have been exercised, with Hutchison Argentina being removed from the footprint map included in the annual report of Hutchison Whampoa in 2005.

Mobile subscribers

Although Hutchison has invested in fixed-wire markets, the main investment focus has been towards mobile markets. As can be seen from Figure II, the number of mobile subscribers has risen almost sevenfold since 2003. As of December 2010, the various mobile operations of Hutchison had collectively 33.4 million proportionate (adjusted for the size of the equity stake) subscribers. Although this makes Hutchison in its entirety a large operator, two caveats need to be taken into account. Firstly, in the context of the global mobile telecommunications industry, Hutchison is not a large operator. Curwen and Whalley (2006b) propose a methodology for assessing internationalization in the mobile telecommunications industry.[13] Updating Curwen and Whalley (2006b) to the end of 2010 reveals that Hutchison is the 23rd-largest mobile operator globally when measured by the number of proportionate subscribers. Moreover, Hutchison's subscriber base is such that it is located towards the lower end of the list of mobile operators with international footprints on any scale.

[Insert Figure II about here]

Secondly, the 33.4 million proportionate subscribers controlled by Hutchison are located in just two regions: Western Europe and Asia-Pacific. This in itself is arguably not a problem as the focus on the two regions could engender scale economies or additional revenue from roaming customers. Nevertheless, a closer examination of the subscriber base of Hutchison reveals that within these two regions subscribers are concentrated in a handful of countries. Within Western Europe, Italy and the UK have since 2004 been consistently the two largest two markets in terms of subscribers. In contrast, in the Asia-Pacific region, the largest provider of subscribers has changed over time, from India (2003 to 2006 inclusive) to China (2007) and, more recently, Indonesia (2008 to 2010 inclusive). The concentration of the subscriber base in a handful of countries is clearly evident if the ratio between the largest three markets and the overall subscriber base is calculated. The largest three countries have not accounted for less than 65 per cent of the overall subscriber base of Hutchison since 2003. The rapid growth of the company in India, Italy and UK not only underpinned the growth in the overall subscriber base of Hutchison, but also resulted in these three countries accounting for 82 per cent of the company's proportionate subscribers in 2005. Since 2005, the subscriber base has become less concentrated, with the largest three markets (Indonesia, Italy and the UK) accounting for 65 per cent of all proportionate subscribers at the end of 2010.

Financial performance

Determining the financial performance of Hutchison Whampoa in the telecommunications industry is not straightforward. Apart from the seemingly constant restructuring of its various telecommunication operations noted above, determining the financial success of Hutchison is complicated by two other factors: firstly, the company has frequently restated its revenues and profits and, secondly, EBIT/LBIT (earnings/loss before interest and taxation) is used to calculate 3 Group profits. The use of EBIT/LBIT is unusual to say the least, as it leaves out depreciation and amortization.

Table III presents the earnings of Hutchison's telecommunications division between 1995 and 2003. Earnings as stated in the relevant annual report are presented rather than subsequent restatements. The first observation we can make is that the profits from the telecommunications division are rather modest, in both absolute terms and when compared to the extraordinary items. From the table it would appear that the telecommunications division produced its highest profit in 1996, though this is slightly misleading as the total for that year, HK$3,642 million, included an unspecified profit from the initial public offering of its UK-based mobile operator, Orange plc. Profits after extraordinary items fall after 1997, and slowly climb back to a broadly similar level over the next six years. Even so, the level of profits reported by the telecommunications division of Hutchison remains relatively modest when compared to the extraordinary items reported. The substantial figure for 1999 is composed of the sale of equity in Orange and the initial public offering of Partner Communications in Israel. Unravelling the aftermath of the Mannesmann/Vodafone merger contributed to the large level of extraordinary items for 2000, as did the sale of equity in two other Hutchison telecommunication businesses. Together, the extraordinary items for these two years amount to HK$138.4 billion, or more than £11 billion at the current exchange rate.

[Insert Table III about here]

The picture presented in Table IV is more complicated, reflecting changes to Hutchison's organizational structure and the tendency of the company to report income including extraordinary items. Nevertheless, it appears that HTIL reported profits of almost HK$67 billion although this is primarily due to the sale of the company's operations in India to Vodafone for HK$69.3 billion (Hutchison Whampoa, 2008). In other words, without this sale HTIL would be loss-making in 2007. Extraordinary items appear to be determining the profitability of HTIL – the loss incurred on the sale of the Paraguayan operations is only partially offset by the gain from the sale of equity in Hutchison Global Crossing Holdings, resulting in a loss overall for 2005. Extraordinary items contribute to the profits reported in 2008 and 2009, although the extent to which this is the case is unclear given the manner in which they are reported. Although 2010 saw two extraordinary items, amounting to almost HK$1 billion, being reported against HAT, the company was still loss-making overall.

[Insert Table IV about here]

Table IV suggests that 3 Group has been profitable twice since 2004; that is, in 2005 and 2010. This is arguably misleading as the profits for 2005 were subsequently restated in the following year using a different methodology, resulting in the company reported a loss (Hutchison Whampoa, 2006). Between 2004 and 2009 (inclusive), the losses incurred by 3 Group amounted to HK$97.7 billion. This is a considerable sum, but it amounts to less than half of the profits Hutchison made from selling assets in just three years (1999, 2000 and 2007). In these three years, extraordinary items totalled HK$207.8 billion. In other words, the losses incurred by 3 Group were less than half of the income gained from the sale of Orange and Hutchison's Indian operations. Interestingly, Hunt (2010) states that Hutchison's 3G operations had accumulated losses of HK$158 billion since 2003. While it is not clear how this has been calculated, it would still be less than the sum raised by the extraordinary items in 1999, 2000 and 2007.

After taking into account the restatement for 2005, there is only a single year in which 3 Group has been profitable. While a series of extraordinary items did contribute to the group's profitability in 2010, the various 3G mobile businesses within the group also performed strongly. Every operation except that in Ireland reported positive EBIT in the second half of 2010 (Hutchison Whampoa, 2011a). While Table III charts the gradual financial improvement of 3 Group's various mobile businesses, it does not shed any light on the individual performance of these operations. Until recently, the review of Hutchison's telecommunications operations in the annual report did not provide detailed figures regarding the profit or loss of its various businesses, and instead relied on terms such as '151% better than last year' in the case of Italy or, in the case of Sweden and Denmark, 'first full-year positive EBITDA' to describe performance (Hutchison Whampoa, 2007: 55).

[Insert Table V about here]

By combining qualitative descriptions of the financial performance of the various businesses within 3 Group with the quantitative statements that are available, Table V highlights two issues. Although at the start of the period the detail provided by Hutchison, with the exception of Australia, is somewhat imprecise, the general trend in the comments indicates a gradual improvement in the operational performance of the various mobile businesses. By the end of 2010, only Ireland continues to be loss-making. There is, however, a degree of volatility in the financial performance of the various businesses. For example, 3 Italia achieves break-even before becoming loss-making in 2008 and 2009, while in Australia the positive earnings in 2007 and 2010 are surrounded by losses in other years.[14]

The more detailed information that is available for 2009 and 2010 highlights a second issue, namely the relatively low profitability of the various businesses. The most profitable country would appear to be the UK, followed by Italy. This is perhaps unsurprising when the large populations, and thus subscriber bases, of Hutchison in these two countries, are taken into account. In contrast, the profits made in four countries combined – Australia, Austria, Denmark and Sweden – are less than those made in Italy. In other words, the overall profitability of 3 Group is largely dependent on just two markets, Italy and the United Kingdom.

As noted above, extraordinary items play a significant role in determining the profitability of HTIL. Although Table IV clearly demonstrates that HTIL has been profitable more times than it has made a loss, even when the extraordinary item in 2007 is taken into account, it does not shed light on the performance of individual businesses which is presented in Table VI. It is clear from Table VI that the mobile operations in some countries – Indonesia and Vietnam – have never been profitable, while others – Sri Lanka and Thailand – have flipped between profitability and loss-making. In contrast, the mobile operations in India and Israel were profitable throughout the period they were owned by HTIL. It is not clear why HTIL would choose to sell both of its consistently profitable mobile businesses, though the sales would conceivably generate revenue that could sustain losses elsewhere as these businesses edged towards profitability as well as fund new investments.

[Insert Table VI about here]

The fixed-wire and mobile operations in Hong Kong and Macau are consistently profitable throughout the period in question. As shown in Figure III, the profitability of the mobile businesses in Hong Kong and Macau exceeded that of the fixed-wire operations between 2005 and 2008 (inclusive), with the margin widening over time. After 2008, profits are lower but the higher profitability of mobile compared to fixed-wire businesses continues into 2009 and 2010. Figure III clearly shows that, after the creation and flotation of the Hong Kong and Macau fixed-wire and mobile businesses, their profitability falls substantially. The relevant annual reports do not shed any light on this decline in profitability, with the 2009 annual report noting that the figure was actually an increase over 2008 (Hutchison Whampoa, 2010a: 48). However, the substantial fall can be attributed to a change in how the results are reported. Prior to 2009, EBITDA was used as an indicator of financial performance, while subsequent to 2009 a different measure – 'operating profit' – is used (Hutchison Telecommunications Hong Kong Holdings, 2011a).[15] Whatever the relative merits of the two measures and the degree of obfuscation that results from the switch between them, what can be stated with a degree of certainty is that the mobile businesses in the two markets are more profitable than the fixed-wire ones between 2004 and 2010 (inclusive).

[Insert Figure III about here]

5. Discussion

Sections 3 and 4 have charted Hutchison Whampoa's involvement in the telecommunications industry. It is clear from both of these sections that the company's involvement is not straight-forward. The organizational structure that has been adopted is complex, involving a series of listed holding companies that are connected to the operating companies through another tier of intermediate companies. Hutchison Whampoa has actively engaged in the sale and purchase of companies. Two of these sales have been highly successful – the sale of Orange plc. to France Télécom and of the Indian operations to Vodafone. But can Hutchison Whampoa repeat this feat for a third time?

Hutchison Whampoa has used a significant proportion of the proceeds from the sales of Orange and its Indian operations to fund the development of 3 Group. As a result of the acquisition of a series of 3G licences and the launch of mobile services in seven countries, 3 Group now accounts for two-thirds of all mobile subscribers controlled by Hutchison Whampoa. While 3 Group has fared better in some countries than others, it remains the smallest operator when measured by mobile subscribers in all the markets where it is present. The description of HTIL as 'lacking scale' when it was taken private by Hutchison Whampoa arguably applies to 3 Group. As a consequence, it is unlikely that Hutchison Whampoa will be able to float all or part of 3 Group, either in its entirety or in individual countries, for sums that would begin to repay the investment.

Since 2006, Hutchison Whampoa has published more detailed financial data regarding the performance of 3 Group. This data are presented below in Table VII and enable an initial assessment of the performance of 3 Group to be made. With respect to revenue, Table VII highlights the decline that has been experienced in Italy, with revenues falling by 18 per cent between 2006 and 2010. Revenues have also declined in the UK, albeit by only 1.6 per cent. In contrast, revenues have increased in Australia, Austria, and Denmark and Sweden (which are reported together), with the rise being particularly significant in the case of the former two countries.

[Insert Table Vii about here]

A more uniform picture is presented by the other two performance measures that appear in Table VII. In all cases, average revenue per user (ARPU) has declined. In those countries where revenues have increased – Austria, Australia and Denmark and Sweden (combined) – this would suggest that subscriber numbers in these countries have also increased, sometimes substantially so. Although the declines indicate a deterioration in 3 Group's financial performance, the rate at which ARPU has fallen has slowed in four cases – Australia, Austria, Denmark and Sweden (combined) and the UK – and has even been reversed, albeit only marginally, in Italy in recent years. A contributory factor to arresting this decline has been the shifting balance of ARPU composition. The proportion of ARPU accounted for by non-voice products has increased in all cases, with a majority of ARPU in Austria and Ireland now coming from non-voice sources.

It is informative to compare 3 Group to the other operators against which it competes. Merrill Lynch publishes quarterly reports detailing the performance of operators in 35 different countries. However, not all of the countries where 3 Group operates are included in the Merrill Lynch reports, nor does it cover all of the operators present in each of the markets and the data do not appear to correspond with data published by Hutchison Whampoa in its annual reports. As such, any analysis needs to be treated with a degree of caution. Nevertheless, Merrill Lynch (2010) does provide sufficient data in two countries to see how well 3 Group has performed compared to its competitors. According to Merrill Lynch (2010), 3 Italia had a higher APRU than TIM, Vodafone and Wind at the end of 2006. Although the APRU of all operators subsequently fell, it fell fastest for 3 Italia so that by the end of 2009 the situation had completely reversed itself – 3 Italia now had the lowest ARPU. The declining financial position has encouraged, once again, rumours that 3 Italia will be sold to one of its competitors (Telegeography, 2011b). The situation is somewhat different in the UK. In parallel with the other operators in the UK market, 3 UK has witnessed an ARPU decline between the end-2006 and end-2009, but it has remained the highest among the five mobile network operators in the market.[16]

The incomplete nature of the data included in Merrill Lynch (2010) means that it is difficult to compare 3 Group companies to their competitors on other performance measures. Nevertheless, sufficient data are provided to compare year-on-year service revenue growth in three countries, Austria, Italy and the UK. In Figure IV, the year-on-year service revenue growth of '3' is compared against the country average, with a positive figure indicating that '3' service revenues grew faster than the country average and a negative figure that they grew more slowly.

[Insert Figure IV about here]

In two countries, Italy and the UK, service revenues initially grew at a much faster rate than the country average. However, this is not that surprising when the law of large numbers is taken into account – in both countries '3' was growing from a relatively small subscriber base, unlike its competitors. Over three years the growth rate declines, so that by 2007 it is more or less aligned in both countries with the market average. In Austria, '3' has grown faster than the country average on three occasions, but on only one occasion has the growth rate been substantially higher.

Merrill Lynch (2010) also provides data on capital expenditure in Australia and the UK. For Australia, data are provided for three operators – Telstra, Optus and Hutchison – between 2004 and 2009. With the exception of 2004, the capital expenditure of Hutchison is less than that of the other two companies with the difference fluctuating over the period. In the UK, data are provided for all five mobile network operators between 2004 and 2010.[17] Capital expenditure has fallen for three operators (Vodafone, Orange and '3'), and increased for one (T-Mobile). In the case of the former O_2, capital expenditure fell, albeit not significantly, before ending the period higher than at the start. Hutchison spent more on capital expenditure than three of its competitors in 2004 compared to one in 2005, 2006, 2007 and 2009. The relatively low level of capital expenditure may have been influenced by the joint venture created between 3 UK and T-Mobile in 2007 (Middleton, 2007).[18] Through sharing masts and the 3G access network, an estimated £2 billion would be saved over 10 years.

6. Conclusions

This paper has outlined the presence of Hutchison Whampoa in the telecommunications industry. Through doing so, the scope and complexity of Hutchison Whampoa's involvement has been demonstrated. As markets have been entered and exited, businesses around the world have been bought and sold. Hutchison Whampoa has also made extensive use of holdings companies, some of which have been listed on various stock exchanges, as well as intermediate companies that link these holding companies to the various operating companies.

The scale and scope of Hutchison Whampoa's involvement in the telecommunications industry provides the context for the question that this paper has sought to address, namely, whether it will be able to repeat its previous successes of Orange and its Indian mobile businesses. Both of these were sold for a considerable amount, enabling Hutchison Whampoa to fund the development of 3 Group. This development, however, has not been straightforward with a consequence that it has consumed a significant proportion of the sum raised from the sale of Orange and the Indian mobile business.

But has this investment resulted in a successful business? The picture is mixed. In those markets where it is present, 3 Group is the smallest operator and APRU has fallen. Moreover, where data are available, year-on-year revenue growth is no better than its competitors. Nevertheless, 3 Group is profitable in all bar one of its markets and it has been able to switch the balance of revenue towards non-voice sources. Even so, the relatively small size of 3 Group makes its purchase by another operator unlikely. Quite simply, the criticism levelled by Hutchison Whampoa against HTIL as it was being ‘privatized’, namely, that it lacked scale, also applies to 3 Group. A more likely development would be the piecemeal sale of 3 Group, though the prices that the various businesses would fetch are limited by the lack of potential bidders in each case. For example, in the UK there are three potential bidders while in Italy there are just two other operators who could use the opportunity to acquire a rival and improve their scale economies. As the various parts of 3 Group are unlikely to fetch large sums and their operational performance is mixed, it is not going to be ‘third time lucky’ for Hutchison Whampoa.

Notes

1. See, for example, Attiyeh (1969), Hopper and Macintosh (1993), Kerr and Darroch (2005), Sampson (1973) and Sobel (1982).

2. The ‘diversification discount’ refers to the notion that as a company diversifies away from its original business, value is destroyed. Thus, highly diversified companies are valued at a discount to their more narrowly focused counterparts. For further details see, for example, Anjos (2010) or Schmid and Walter (2009).

3. Although Philip Morris began the divestment of Kraft in 2001 with the sale of a minority stake in Kraft Foods, it was not completed until 2007 when the remaining shares (88.1 per cent) were distributed to its own shareholders.

4. See, for example, Curwen and Whalley (2006a).

5. The eight listed subsidiaries and associated companies identified by Hutchison Whampoa on its website are: Hutchison Telecommunications Hong Kong Holdings, Hutchison Telecommunications Australia, Cheung Kong Infrastructure Holdings Ltd, Hutchison China MediTech, Husky Energy, Hutchison Harbour Ring Ltd, Hutchison Port Holdings and TOM Group Ltd.

6. The Cheung Kong Group consists of Cheung Kong Holdings, Hutchison Whampoa, Power Assets Holdings Ltd, Cheung Kong Infrastructure Holdings Ltd, CK Life Sciences International (Holdings) Inc., Hutchison Telecommunications Hong Kong Holdings Ltd, Hutchison Harbour Ring Ltd and TOM Group Ltd. For further details of the scale and scope of Cheung Kong Holdings see www.ckh.com.hk

7. See www.uncatd.org/wir for further details of the World Investment Report published annually by United Nations Conference on Trade and Development (UNCTAD).

8. On completion of the merger, Hutchison Whampoa owned 73 per cent of the enlarged company. This was subsequently reduced to 53 per cent through a placement of shares resulting in a profit of almost HK$1300 million (Hutchison Whampoa, 2004: 23).

9. Interestingly, the various annual reports of Hutchison provide contradictory dates for the completion of the re-purchase of equity in Hutchison 3G UK from NTT DoCoMo and KPN.

10. The 1995 and 1996 annual reports do not describe in detail the businesses operated by Hutchison in Australia, nor do they elaborate on the nature of the investment that the company has made.

11. A similar set of arrangements surround BFKT (Thailand) Ltd. HTIL owns 49 per cent of PKNS, with the remaining 51 per cent being owned by DPBB (Thailand) Ltd. PKNS, in turn, owns BFKT.

12. However, the following year's annual report stated that Hutchison held an effective interest of 18.4 per cent in VoiceStream (Hutchison Whampoa, 2001: 31).

13. The four dimensions for measuring internationalization as suggested in Curwen & Whalley (2006) are the number of countries, the number of proportionate subscribers, the number of proportionate subscribers by region and psychic dispersion.

14. It is worth treating the reported profits and losses for Australia with a degree of caution. In 2004, Hutchison stated its net loss attributable to shareholders to be A$522 million (Hutchison Whampoa, 2004). The following year, the loss of A$547 million was reported as being a 21 per cent improvement on the previous year's results (Hutchison Whampoa, 2005). This is only possible when the re-stated profits for 2004, published in the 2005 Annual Report, are used.

15. The company also differentiates between profit that is attributable to the shareholders of HTHKH and that attributable to non-controlling interests (Hutchison Telecommunications Hong Kong Holdings, 2010: 6). The Annual Report does not provide a clear statement of the difference between these two measures.

16. Merrill Lynch (2010) also provides estimates of the situation at the end of 2010. If these are taken into consideration, average revenue per user (ARPU) in both Italy and the UK continues to fall in 2010. However, the positions are quite different between the two markets – in Italy, 3 Italia's ARPU is the lowest in the market while in the UK the ARPU of 3 UK is the highest.

17. The capital expenditure figures for 2010 in the UK are estimated in Merrill Lynch (2010).

18. Mobile Broadband Network was created as an equally-owned joint venture between 3 UK and T-Mobile (Middleton, 2007).

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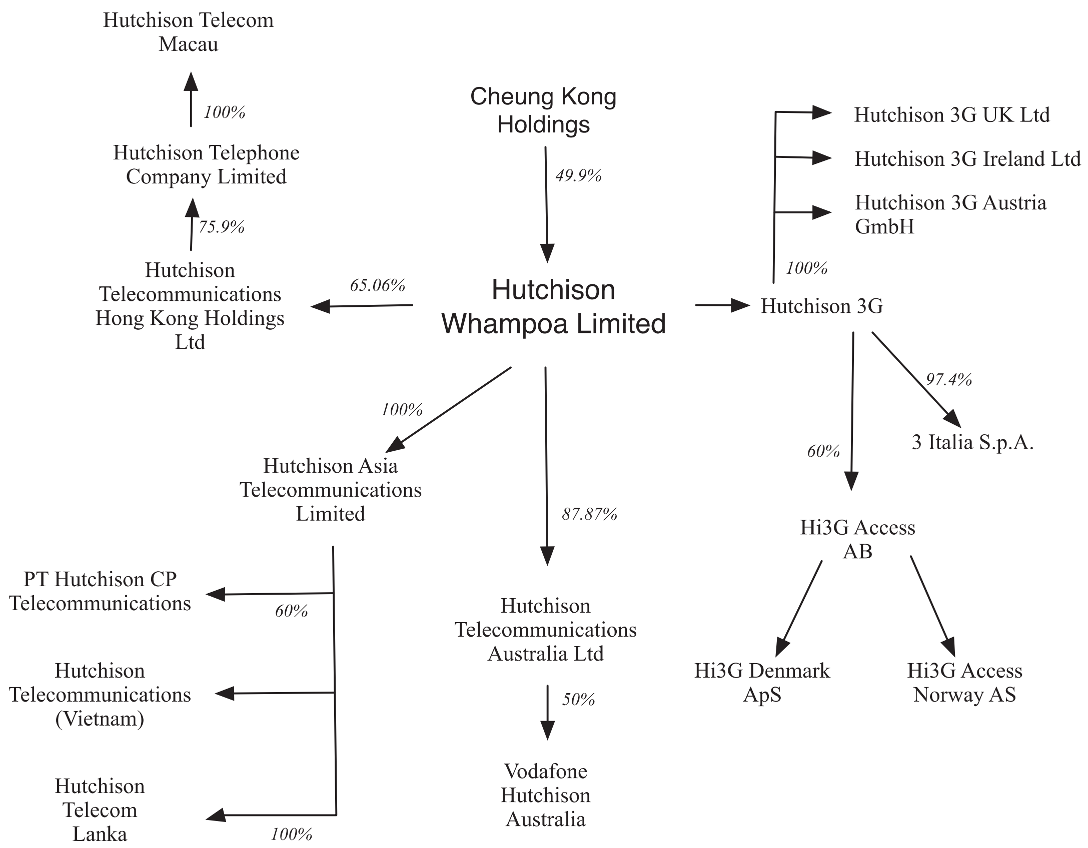
Figure 1 Structure of Hutchison Whampoa, August 2011.



Source: Compiled by the authors from the annual reports and 20-F filings of Hutchison Whampoa, Hutchison Telecommunications (Australia) Ltd, Hutchison Telecommunications International Ltd and Hutchison Telecommunications Hong Kong Holdings Ltd.

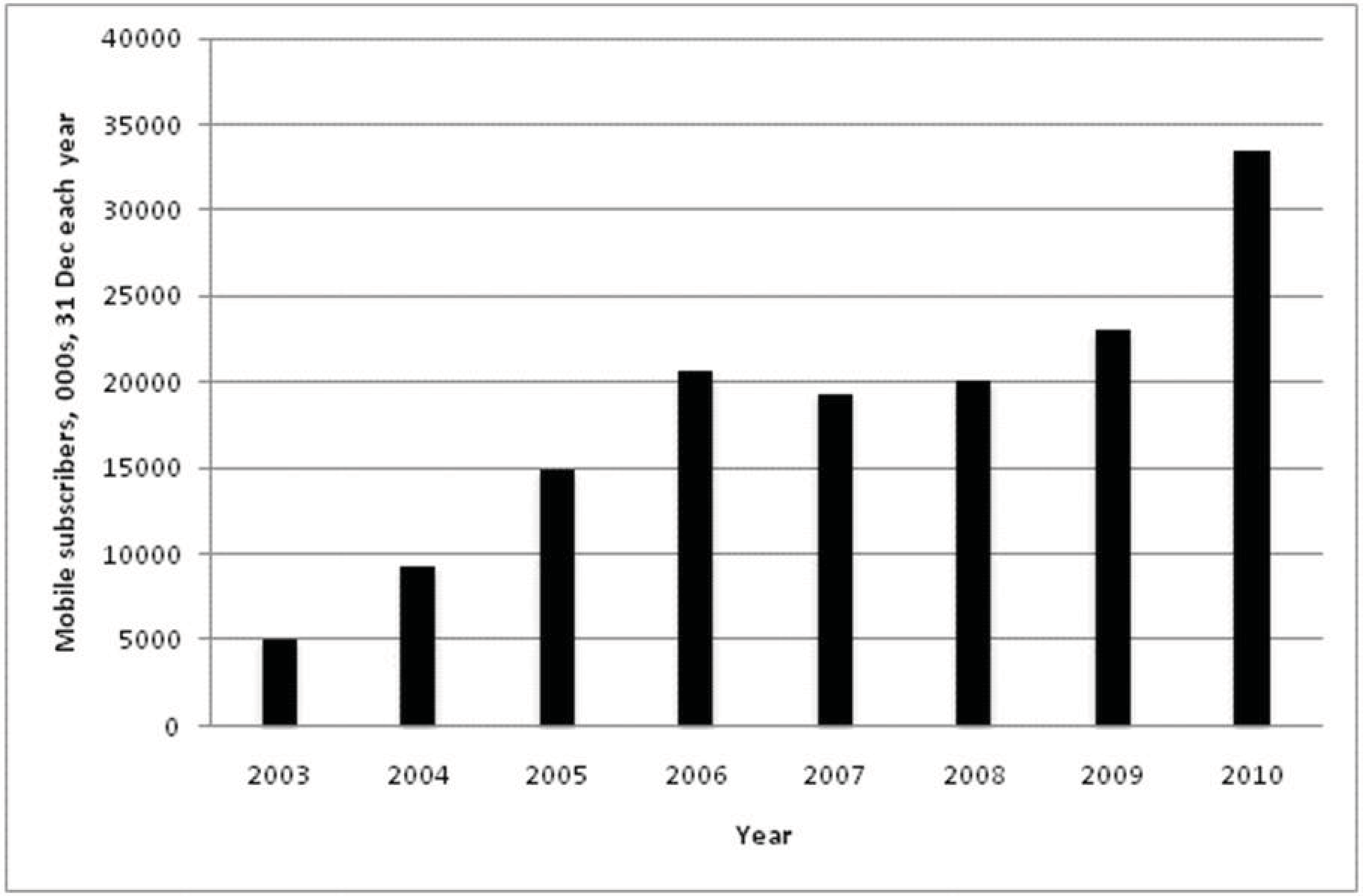
Table I Timeline of events, 1989 to 2011

Year	Event
1989	• Australia – launched paging services through a joint venture
1991	• UK – acquired Microtel
1994	• UK – renames operations as Orange Personal Communications Services Ltd
1995	• India – 2G joint ventures commences operations
	• Hong Kong – 2G services commerce
1996	• UK – creates Orange plc. as a holding company, and floats 30 per cent on London Stock Exchange and NASDAQ
1997	• Australia – gained a 3G licence
	• Hong Kong – sale of shares in Asia Satellite Telecommunications Holdings to CITIC
	• Sri Lanka – entered the market through acquiring 100 per cent of Hutchison Lanka
1998	• Australia – commences mobile operations
	• Belgium – Orange acquires 50 per cent stake in KPN Orange Belgium
	• Ghana – acquired 80 per cent Kasapa
	• Hong Kong – sale of remaining stake in Asia Satellite Telecommunications Holdings
	• India – raises stake in Hutchison Max Telecommunications from 24.9 per cent to 49.5 per cent
	• Israel – invests in Partner Communications
	• Switzerland – Orange acquires 50 per cent stake in Orange Communications SA
1999	• Australia – Hutchison Telecommunications (Australia) ltd listed on stock exchange, reducing stake held to 54 per cent
	• Hong Kong – sale of 19 per cent stake in Hutchison Telephone to NTT DoCoMo
	• Hong Kong – sale of 50 per cent stake in the group’s fixed, Internet and data services businesses to Global Crossing. Hutchison Global Crossing created.
	• Israel – Partner Communications floated on London Stock Exchange and NASDAQ; services commence in Israel
	• UK – sale of Orange plc. to France Télécom
	• UK – gains 5 per cent stake in Vodafone in aftermath of Vodafone, Orange, Mannesmann and France Télécom takeover battle
	• USA – VoiceStream expands its geographical footprint by merging with two other operators
2000	• Austria – awarded 3G licence
	• India – purchases 49 per cent of GSM operations in New Delhi, Calcutta and Gujarat state
	• Italy – awarded 3G licence
	• Sweden – awarded 3G licence
	• UK – awarded 3G licence
	• USA – VoiceStream shareholders agree to merger with Deutsche Telekom
2001	• Argentina – provision of mobile services
	• Australia – forms strategic alliance with TCNZ
	• Denmark – awarded a 3G licence
	• India – forms joint venture with Essar Group to acquire additional mobile licences
	• Macau – 2G operations commence
	• Paraguay – provision of mobile services
	• USA – Deutsche Telekom/VoiceStream merger completed
2002	• Ireland – awarded 3G licence
	• USA – bankruptcy court agrees that it can invest in Global Crossing
2003	• Hong Kong – acquires 37 per cent of Vanda, a listed IT company
	• Norway – awarded 3G licence
	• UK – repurchases equity held by NTT DoCoMo and KPN Mobile
2004	• Hong Kong – Vanda acquires Hutchison Global Communications and PowerCom Network Hong Kong, and is renamed Hutchison Global Communication. A 26 per cent stake is subsequently sold.
	• Hong Kong – 3G services commence
	• Hong Kong – lists Hutchison Telecommunications International Ltd on Hong Kong

	• Indonesia – announces intention to acquire 60 per cent of PT Cyber Access Communications
2005	• Paraguay – sale of Hutchison Telecom • Hong Kong – Hutchison Telecommunications International Ltd acquires outstanding shares in Hutchison Global Crossing Holdings • Hong Kong – sale of 19.3 per cent stake in Hutchison Telecommunications International by Hutchison Whampoa to Orascom
2006	• Indian – expands geographical footprint through acquiring BPL Mobile Cellular and Essar Spacetel • Macau – awarded a 3G licence
2007	• India – sale of Indian operations held by CGP Investment (Holdings) Ltd • Macau – 3G operations commence
2008	• Ghana – sale of Kasapa
2009	• Australia – announces merger of Australian operations with Vodafone • Hong Kong – divests Hutchison Telecommunications Hong Kong to shareholders • Hong Kong – announces repurchase of Hutchison Telecommunications International Ltd • Israel – sale of remaining equity in Partner Communications
2010	• Hong Kong – completes repurchase of Hutchison Telecommunications International and delists the company from the stock exchange
2011	• Thailand – sale of Hutchison Wireless Multimedia Holdings to True Corp

Source: Compiled by the authors from the annual reports and 20-F filings of Hutchison Whampoa, Hutchison Telecommunications (Australia) Ltd, Hutchison Telecommunications International Ltd and Hutchison Telecommunications Hong Kong Holdings Ltd.

Figure II Mobile telecommunication proportionate subscribers, 2003-2010, 31 December, 000s



Source: compiled by the authors from a variety of sources

Table II Telecommunication holdings of Hutchison Whampoa, August 2011.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Argentina							Entry[13]				Exit[17]						
Australia[1]	[6]				per cent↓[10]	per cent↑	Alliance[14]						per cent↓		Merger[20]		
Austria[1]						Entry											
Belgium[2]				Entry	Exit												
Denmark[4]							Entry										
Ghana[1]				Entry							per cent↑			Exit			
Hong Kong[5]	[7]														Spin-off[21]		
India[4]	[8]			per cent↑		Expand	Expand					Expand	Exit[18]				
Indonesia[4]											Entry						
Ireland[1]								Entry									
Israel[4]				Entry	per cent↓[10]								per cent↑	per cent↑	Exit		
Italy[1]						Entry							per cent↑	per cent↑			
Macau[5]							Entry								Spin-off[21]		
Norway[3]									Entry							[22]	
Paraguay						Entry					Exit						
Sri Lanka[4]			Entry														
Sweden[1]						Entry											
Switzerland[2]				Entry	Exit												
Thailand[4]								Entry					Merger[19]				Exit[23]
Vietnam[4]										Entry[16]							
UK[1]	[9]				Exit[11]	Entry[12]			per cent↑[15]								
USA			Entry		Expand	Exit											
No of countries present in	4	4	6	10	7	11	14	16	17	18	17	17	16	15	14	14	13

Key:
per cent↑ - Shareholding increased
per cent↓ - Shareholding decreased

Notes:
1. Part of 3 Group
2. Held via Orange plc
3. Wholly-owned subsidiaries of 60 per cent Hi3G Access
4. Held via Hutchison Telecommunications International Limited (HTIL)
5. Part of Hutchison Telecommunications Hong Kong Holdings Limited
6. Limited information is provided in the earlier Annual Reports regarding when it entered the Australian market However, Hutchison Telecommunications (Australia) Ltd (2009) does provide a timeline of the company's presence in Australia, showing that it first entered in 1989
7. 1996 Annual Report mentions rapid growth compared to 1995, thus implying that mobile operations were present in Hong Kong in 1995
8. The 1996 Annual Report implies that the Indian joint ventures commenced operations in 1995, though it does not say when the joint ventures were established
9. Hutchison Whampoa's first entry into the UK telecommunications occurred in 1991, followed by the creation of Orange PCS in 1994
10. Shares sold as part of IPO
11. Sale of Orange plc. to France Telecom
12. Shortly after winning a UK 3G licence, Hutchison Whampoa reduced its stake in its UK operations to 65 per cent through selling shares to NTT DoCoMo (20 per cent) and KPN Mobile (15 per cent)
13. According to the 2004 Annual Report, this investment was not part of either HTIL or 3 Group
14. Announces strategic alliance with TCNZ
15. Various annual reports provide contradictory dates regarding when the stakes held by NTT DoCoMo and KPN Mobile were repurchased
16. The company does not own a network but instead is allocated profits pro rata
17. As no explicit mention of the sale of the Argentina business is made in the annual reports, the 2005 exit date is derived from the footprint maps provided
18. HTIL sold CGP Investment (Holdings) Limited, the vehicle owning its operations in India
19. Expands coverage but is not national in scope
20. Merger with Vodafone Australia with the result that Hutchison Telecommunications Australia Limited owns 50 per cent of Vodafone Hutchison Australia.
21. Although the holding company was spun-off, Hutchison Whampoa retained a majority stake in Hutchison Telecommunications Hong Kong (Holdings)
22. Although a licence has been awarded, operations have yet to start in Norway
23. Sold during January 2011

Source: Compiled by the authors from a variety of sources

Table III Earnings from the telecommunications division of Hutchison Whampoa, 1995-2003

Year	Total profit of telecommunications division HK$ million	Profit after extraordinary items deducted HK$ million	Extraordinary items, HK$ million
1995	324		-
1996	3,642		Profit from Orange plc IPO[2]
1997	-	1,071[1]	1,515[3]
1998	-	388	684[4]
1999	-	563	116,916[5]
2000	-	476	21,520[6]
2001	-	719	-
2002	-	818	-
2003	-	1,195	-

Notes:
1. No extraordinary items are mentioned in the 1997 Annual Report, the HK$1,515 million is mentioned in the 1998 Annual Report
2. Undisclosed
3. The annual report does not state what this is derived from
4. From the sale of remaining stake in Asia Satellite Telecommunications Holdings
5. From the sale of Orange plc and IPO of Partner Communications in Israel.
6. From exchange of Mannesmann shares for a stake in Vodafone and subsequent sale of Vodafone shares; sale of 50 per cent of Hong Kong fixed line business to Global Crossing; sale of 19 per cent in Hong Kong mobile to NTT DoCoMo; and provision against currency fluctuations

Source: Compiled by the authors from the relevant annual reports of Hutchison Whampoa

Table IV Earnings of the various telecommunication holdings of Hutchison Whampoa, 2004-2010

Year	HTIL HK$ million	HAT[1] HK$ million	HTHKH HK$ million	3 Group HK$ million[2]	HTAL[3,4] HK$ million	Extraordinary items HK$ Million
2004	23[5]	-	97[7]	-7,291	-	-
2005	-768	-	-	1,825[8]	-	HTIL - loss on sale of Paraguay, gain from sale of 26 per cent in HGCH
2006	201	-	-	-19,996[8]	-	-
2007	66,884[6]	-	-	-17,938	-	HTIL – gain from sale of Indian operations of 69,343
2008	1,883	-	-	-10,875	-	HTIL – from Indonesian tower lease & buyback
2009	4,940	-	468	-5,281[9]	-	HTIL – from sale of Israeli operations and proceeds from sales in Indonesia
2010	-	-2,688	1,090	2,931	156	3 UK – one-off gain from network sharing = 6,010. One-off loss against restructuring = 3,742 HAT – 699 compensation from suppliers; 251 profit from sale of towers

Notes:
1. Hutchison Asia Telecommunications, previously Hutchison Telecommunications International Ltd
2. Calculated using L(E)BITDA (loss [earnings] before interest, tax, depreciation and amortisation) before expensed CAC (customer acquisition costs and retention costs).
3. Hutchison Telecommunications Australia Ltd
4. Included within 3 Group figure
5. Profit attributable to Hutchison Whampoa
6. Profits before extraordinary items not stated in the 2007 Annual Report
7. From Hong Kong & Macau operations
8. The 2006 Annual Report restates the 2005 Annual Report using LBIT. In 2005 LBIT is stated as being HK$ 36,280 million.
9. Restated 2009 figures included in the 2010 annual report increase the LBIT to HK$ 8,922 million
10. Hutchison Telecommunications International Ltd

Source: Compiled by the authors from the annual reports and 20-F filings of Hutchison Whampoa, Hutchison Telecommunications (Australia) Ltd, Hutchison Telecommunications International Ltd and Hutchison Telecommunications Hong Kong Holdings Ltd.

Table V The fluctuating financial performance of 3 Group, 2006-2010

Country (currency)	2004	2005	2006	2007	2008	2009	2010
Italy (€ million)	"…on target to be EBITDA breakeven, before expensed CAC, on a month-by-month basis from April "	"…reported its first full-year positive EBITDA before all CACs…"	"EBITDA…151 per cent better than last year"	"…achieved a breakeven EBITDA position for the full year"	"3 Italia's revenue and LBIT…declined 15 per cent and increased 16 per cent respectively"	-447	96
Australia (A$ million)	"…net loss attributable to shareholders of A$552m compared to A$410m last year…"	"…net loss attributable to shareholders of A$547m, a 21 per cent improvement …"	"…revenue from its 3G operations of A$849 million, 76 per cent better than in 2005"	"EBITDA after all CACs increased 464 per cent for a second year of positive EBITDA results"	"…revenue of A$1623m, a 23 per cent increase over the previous year and a net loss…of A$163m, a 43 per cent improvement from last year's results"	-120	73
Sweden & Denmark (SEK million)	"…revenues increased 27 times…"	"Total revenue grew 135 per cent compared to 2004…"	"…operation in Sweden achieved its first full-year EBITDA…offset by start-up losses in Denmark"	"Combined revenue … increased by 48 per cent compared to 2006 and LBIDTA after all CACs reduced by 75 per cent as compared to 2006"	"The combined operation achieved a major milestone of positive EBITDA after all CACs … in the second half of the year …, LBIT for 2008 improved 29 per cent compared to 2007"	-439	137
Austria (€ million)	"…revenues increased 16 times…"	"Total revenue increased by 160 per cent compared to 2004."	"LBITDA before all CACs reduced by 82 per cent to an almost breakeven position"	"LBITDA after all CACs also improved 60 per cent compared to 2006"	'…LBIT, before including the non-recurring foreign exchange gains, improved 24 per cent..."	"…revenue and LBIT… increased 3 per cent and reduced 8 per cent respectively	4.1
UK & Ireland (£ million)	-	-	"…an 817 per cent turnaround from the comparable LBITDA last year…"	"3 UK achieved positive EBITDA after all CACs and before including non-recurring foreign exchange gains"	-172	-	-
UK (£ million)	"…achieved earnings before EBITDA breakeven before expensed CAC …in Dec 2004…"	"First full-year positive EBITDA before all CACs…"	-	-	-	-89	173
Ireland (€ million)	-	-	-	-	-	-	-78

Note:

1. EBITDA = earnings before interest, tax, depreciation and amortisation; LBITDA = loss before interest, tax, depreciation and amortisation; CAC = customer acquisition costs

Source: Compiled by the authors from the relevant reports of Hutchison Whampoa

Table VI Financial performance of Hutchison Telecommunications International Ltd (2004-2009) and Hutchison Asia Telecommunications (2010)

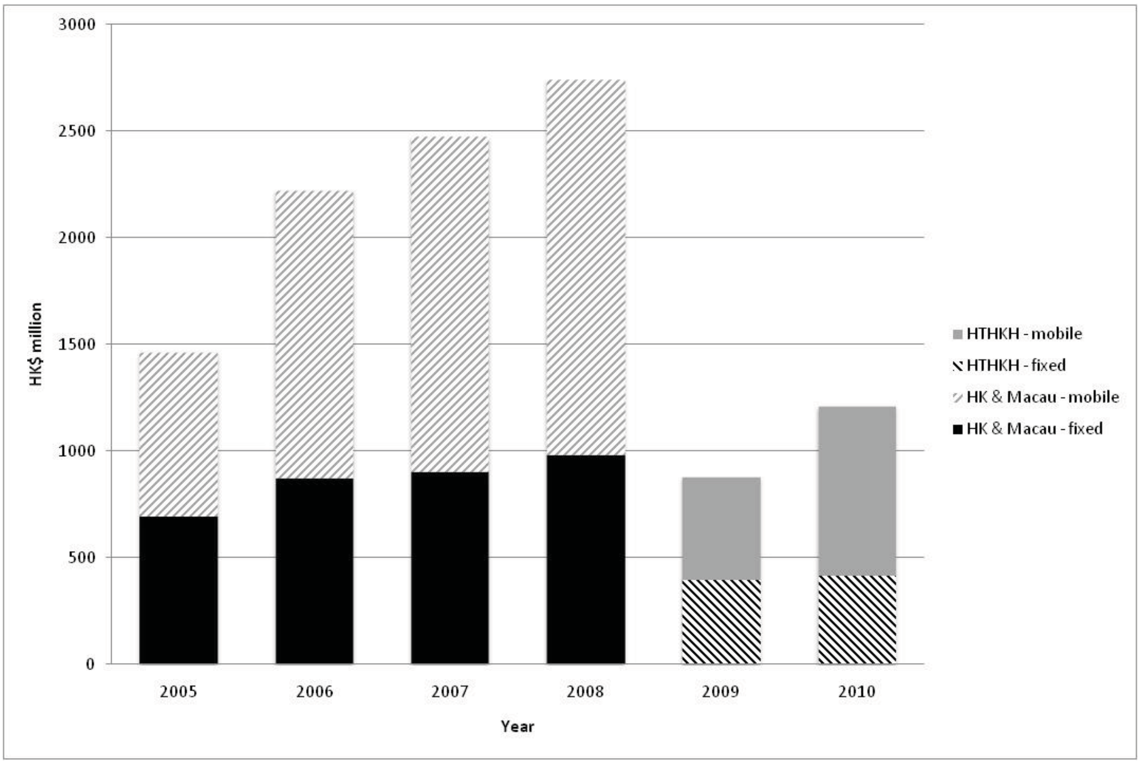
	2004	2005	2006	2007	2008	2009	2010
Ghana	-	-	[7]	[6]	-	-	-
India	[3]	EBITDA HK$3,237m	EBITDA after CAC HK$4900m	[6]	-	-	-
Indonesia	-	[4]	"…start-up losses of the Vietnam and Indonesia businesses." -	LBITDA HK$475m	LBITDA HK$1,003m	LBITDA HK$1300m	LBIT up 17%
Israel	US$176m profit	US$77m profit	US$162m profit	US$244m profit	US$277m profit	[6]	-
Paraguay	-	HK$352m loss[6]	-	-	-	-	-
Sri Lanka	-	[5]	[7]	EBITDA after CAC HK$93m	EBITDA HK37m	LBITDA HK$94m	LBIT up 61%
Thailand	LBITDA HK$233m[2]	LBITDA HK$15m	EBITDA after CAC HK$57m	LBITDA after CAC HK$14m	EBITDA HK$81m	LBITDA HK$83m	[9]
Vietnam	-	[4]	-	LBITDA HK$228m	-	LBITDA HK$361m	LBIT up 43%[8]

Notes:

1. EBITDA = earnings before interest, tax, depreciation and amortisation; LBITDA = loss before interest, tax, depreciation and amortisation; CAC = customer acquisition costs
2. The reported loss was due to an extraordinary charge of HK$557 million relating to bad debts and customer acquisition costs (Hutchison Whampoa, 2004: 50)
3. The 2004 Annual Report does not provide specific details regarding the financial performance of the company's operations in India. It does, however, suggest revenue and subscriber growth (Hutchison Whampoa, 2004: 49)
4. Entered the market in this year
5. No mention is made of Sri Lanka in the Annual Report (Hutchison Whampoa, 2005)
6. Exited the market in this year
7. The 2006 Annual Report does not provide specific details regarding the financial performance in both Ghana and Sri Lanka. Instead, it is noted that in both countries the subscriber base increased as network coverage and quality was improved (Hutchison Whampoa, 2006: 50)
8. The 2010 Annual Report also states that one-off compensation of HK$669 million resulted in a positive EBIT for the year (Hutchison Whampoa, 2010: 49)
9. Hutchison exited the Thai market in January 2011

Source: Compiled by the authors from the relevant annual reports of Hutchison Whampoa

Figure III Financial performance of the telecommunication businesses in Hong Kong and Macau



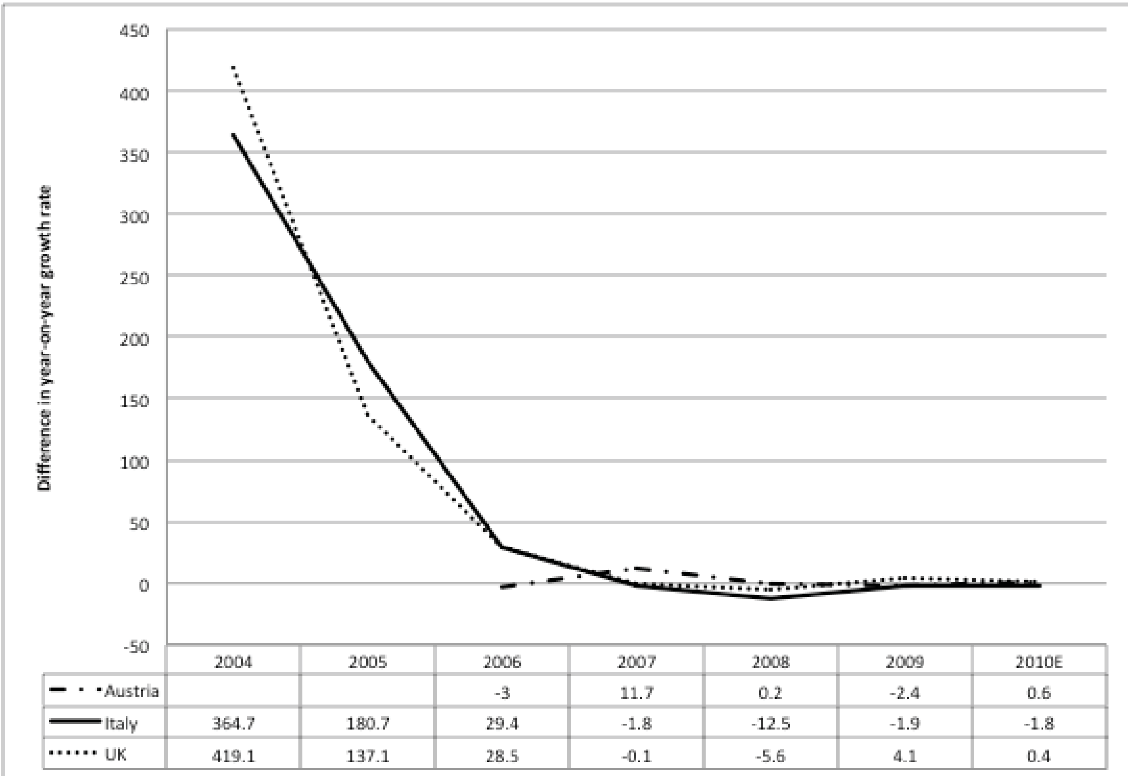
Source: compiled by the authors from the relevant annual reports of Hutchison Whampoa and Hutchison Telecommunications Hong Kong Telecommunications.

Table VII Financial performance of 3 Group, 2006-2010

	2006	2007	2008	2009	2010
	Revenue				
Australia A$m	848.9	1156.4	1467.9	1,884.5	2,201.4
Austria €m	172.9	190.4	169.9	174.2	207.3
Italy €m	2,071.8	2018.2	1725.6	1647.0	1,705.4
Sweden & Denmark SEKm	2,632.8	3893.3	4562.3	5,552.2	6,472.9
UK & Ireland £ m	1,519.6	1590.9	1559.3	1,548.8	-
UK £m	-	-	-	-	1,404.4
Ireland €m	-	-	-	-	89.9
	Average Revenue Per User per month				
Australia A$m	70.5	68.6	66.5	55.9	54.0
Austria €m	51.2	45.3	33.0	23.9	21.8
Italy €m	33.9	29.3	25.3	23.5	23.6
Sweden & Denmark SEKm	404.3	430.8	379.2	347.6	329.0
UK & Ireland £m	46.57	43.4	33.6	26.5	-
UK £m	-	-	-	-	22.6
Ireland €m	-	-	-	-	25.4
	Average Revenue Per User per month from non-voice sources %				
Australia A$m	24.0	27.0	31.2	37.0	40.0
Austria €m	18.0	26.0	36.3	49.0	52.0
Italy €m	35.0	30.0	31.7	39.0	39.0
Sweden & Denmark SEKm	21.0	27.0	36.3	42.0	43.0
UK & Ireland £m	29.0	33.0	33.5	37.0	-
UK £m	-	-	-	-	41.0
Ireland €m	-	-	-	-	55.0

Source: Compiled by the authors from the relevant annual reports of Hutchison Whampoa

Figure IV Year-on-year service revenue growth rates – ‘3’ compared to country averages, 2004-2010



Source: Merrill Lynch (2010)