Notes to the Accounts

1 Restructuring and Nature of Operations

Hutchison Telecommunications International Limited (the "Company") was incorporated in the Cayman Islands on 17 March 2004 as a company with limited liability. It is a subsidiary company of Hutchison Whampoa Limited ("HWL"), a conglomerate based in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Restructuring

On 22 September 2004, the Company and HWL undertook a restructuring (the "Restructuring") in contemplation of the listing of the Company on the Hong Kong Stock Exchange and the New York Stock Exchange, whereby HWL transferred to the Company the operations and related assets and liabilities of its mobile telecommunications and related businesses in Hong Kong, India, Israel, Thailand, Sri Lanka, Paraguay, Ghana and Macau, and fixed-line telecommunications and other businesses in Hong Kong.

The Company and its subsidiary companies are collectively referred to as the "Group". The direct and indirect subsidiary companies, associated companies and jointly controlled entities of HWL outside the Group are now collectively referred to as "related companies".

As part of the Restructuring, the Company entered into a non-competition agreement with HWL, whereby the Group has the right, exclusive of HWL and related companies, to engage in the telecommunications business in all the countries in the world except for member countries of the pre-2004 enlarged European Union and other territories within Western Europe, the United States, Canada, Australia, New Zealand and Argentina (prior to the exercise of the next-mentioned option). The Company has been granted an option to acquire HWL's mobile telecommunications related interests in Argentina at HWL's investment cost plus interest. The option expires on 22 September 2007, being three years after the date of the Restructuring with a further right of first refusal thereafter.

As part of the Restructuring, the net amount due to related companies amounting to HK$20,869 million was capitalised on 22 September 2004 as share capital and share premium of the Company.

The Company's American Depositary Shares were subsequently listed on the New York Stock Exchange on 14 October 2004 and its Shares on the Main Board of the Hong Kong Stock Exchange on 15 October 2004.

Nature of operations

The Group is engaged in mobile telecommunications and related businesses in Hong Kong, India, Israel, Thailand, Sri Lanka, Paraguay, Ghana and Macau, and fixed-line telecommunications and other businesses in Hong Kong.

2 Basis of Preparation

The Restructuring was accounted for as a reorganisation of businesses under common control in a manner similar to a pooling of interests in accordance with Hong Kong Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions". The accompanying consolidated profit and loss account and consolidated cash flow statement include the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the years ended 31 December 2003 and 2004 or since their respective dates of incorporation or acquisition. The accompanying consolidated balance sheet at 31 December 2003 was prepared to present the financial position of the Group as if the current group structure had been in existence as of 31 December 2003. All significant intercompany transactions and balances within the Group are eliminated on consolidation. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies and have been accounted for in arriving at the Group's net profit or loss attributable to shareholders and net assets or liabilities.

On this basis, the consolidated accounts of the Group include the accounts of the Company and its subsidiary companies and also incorporate the Group's interest in associated companies on the basis set out in Note 3C below. Results of subsidiary companies and associated companies acquired or disposed of are included as from their effective dates of acquisition or up to the dates of disposal as the case may be.

2 Basis of Preparation (continued)

At 31 December 2004, the Group had net current liabilities. Whilst the Group's operations have generated cash during the year, investments in the Group's businesses have consumed cash in excess of amounts generated from operations. The consequent financing requirement has been met by bank and other loans and support from HWL and related companies, mainly through guarantees of bank and other third party's loans extended to the Group.

Certain comparative figures have been reclassified to conform with current year's presentation. In particular, interest income has been reclassified to net off with interest and other finance costs, and shown as interest and other finance cost, net.

3 Principal Accounting Policies

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. With effect from 1 January 2004, the Group has early adopted HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets".

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Changes to the Group's accounting policies and the effect of adopting these new policies are set out in Notes 3J, 3K and 3M below.

A Subsidiary companies

A company is a subsidiary company if the Company, directly or indirectly, has more than 50% of the voting control or otherwise has governing power, or by virtue of the Company's funding or financing arrangements bears the majority of the economic risks and is entitled to the majority of the rewards of that company on a long term basis. In the consolidated accounts, subsidiary companies are accounted for as described in Note 2 above. In the unconsolidated accounts of the Company, investments in subsidiary companies are stated at cost less provision for impairment losses.

The particulars of the Group's principal subsidiary companies as at 31 December 2004 are set forth on pages 127 to 129.

B Minority interests

Recognition of minority interests' share of losses of subsidiary companies is generally limited to the amount of such minority interests' portion of the common equity of those subsidiary companies.

Minority interests' share of losses is generally not recognised once the minority holders of common equity of subsidiary companies have their investment value reduced to zero as such amounts do not represent a receivable by the Group and the minority holders are not obligated to provide additional funding.

3 Principal Accounting Policies (continued)

C Associated companies

An investee company is classified as an associated company if significant influence is exercised over its management but there is no contractual agreement between the shareholders to establish the Group's control or joint control over the economic activities of the entity. Results of the associated companies are incorporated in the accounts to the extent of the Group's share of the post acquisition results. Investments in associated companies represent the Group's share of their net assets, after attributing fair values to their net assets as at the date of acquisition, less provision for impairment in value.

The particulars of the Group's principal associated companies as at 31 December 2004 are set forth on Note 15 to the accounts.

D Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Fixed assets are depreciated on a straight-line basis, at rates sufficient to write off their costs over their estimated useful lives.

Buildings	20-50 years
Telecommunications and network equipment	10-35 years
Motor vehicles	20-25%
Office furniture & equipment and computer equipment	15-20%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is the greater

During the year ended 31 December 2004, the Directors re-assessed the useful lives of certain of the Group's telecommunications and network equipment in relation to the Group's fixed-line business. As a result of this re-assessment, the Directors concluded that the useful lives of these assets should be extended from 6.7-25 years to 20-35 years. The Directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively from 1 January 2004. The effect of this change in accounting estimate is to decrease depreciation charge for the year ended 31 December 2004 by HK$57 million.

Leasehold land is amortised over the remaining period of the lease. The period of the lease includes the period for which a right at the lessee's option of renewal is attached at nil or a de minimis additional cost.

The cost of maintenance and repairs is charged to operations as incurred. Expenditures, which extend the useful life of the asset or increase the capacity or quality of output or standard of performance, are capitalised and depreciated at the applicable depreciation rates.

Construction in progress is stated at cost, which includes borrowing costs incurred to finance the construction, and is proportionally attributed to the qualifying assets.

E Cash and cash equivalents

Cash and cash equivalents represent cash on hand and in banks and all demand deposits placed with banks with original maturities of three months or less from the date of placement or acquisition.

F Restricted cash

Restricted cash represents cash deposited with banks as collateral for the Group's banking facilities.

3 Principal Accounting Policies (continued)

G Trade and other receivables

Trade and other receivables are recorded net of provision for doubtful debts, based upon a review of the collectibility of the outstanding amounts at the end of the year. Accounts are written off as bad debts during the year in which they are determined not to be collectible.

H Internal-use software

The Group capitalises direct costs incurred during the application development stage and the implementation stage for developing, purchasing or otherwise acquiring software for internal use. These costs are amortised over the estimated useful lives of the software, generally 5 years. All costs incurred during the preliminary project stage, including project scoping, identification and testing of alternatives, are expensed as incurred.

I Leased assets

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased.

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are treated as consisting of capital and interest elements. The capital element of the leasing commitment is included as a liability and the interest element is charged to the consolidated profit and loss account.

All other leases are accounted for as operating leases and the rental payments are charged to the consolidated profit and loss account on an accrual basis.

J Other non-current assets

Licences granted to the Group by the government in each of the countries where the Group does business include the right to use spectrum. The methods of payment for these rights vary from country to country and include fixed upfront payments, fixed periodic payments with variable periodic payments in subsequent years and variable only payments. Payments prior to commercial launch of services are recorded at cost and included in other non-current assets and amortised from the date of first commercial launch over the remaining licence period. Upfront payments and fixed periodic payments made subsequent to the commercial launch of services are recognised in the profit and loss account on a straight-line basis over the period of the related licence. Variable periodic payments are recognised in the profit and loss account as incurred.

Costs to acquire mobile telecommunication customers are capitalised and amortised over the minimum enforceable contractual period. In the event that a customer churns off the network within the minimum enforceable contractual period, any unamortised customer acquisition costs are written off in the period in which the customer churns. Up to 31 December 2003, customer acquisition costs were amortised over the estimated customer relationship period. In the event that a customer churned from the network, any unamortised customer acquisition costs were written off. From 1 January 2004, with the early adoption of HKAS 38, customer acquisition costs are amortised over the minimum enforceable contractual period. The early adoption of the current interpretation of HKAS 38 from 1 January 2004 has resulted in an addition of HK$260 million in the amortisation of customer acquisition costs and resulting in a decrease in operating profit of HK$260 million for the year ended 31 December 2004.

Prepaid capacity and maintenance is telecommunications capacity leased on an indefeasible right of use ("IRU") basis and related maintenance services. Prepaid capacity and maintenance is stated at cost and amortised on a straight line basis from the date that the related capacity is activated over the shorter of the term of the IRU agreement or estimated useful life.

3 Principal Accounting Policies (continued)

K Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company or associated company at the date of acquisition.

Goodwill on acquisition is reported in the balance sheet as a separate asset or, as applicable, included within investment in associated companies. Up to 31 December 2003, goodwill was amortised using the straight line method over its estimated useful life and assessed for impairment at each balance sheet date. From 1 January 2004, with the early adoption of HKFRS 3, goodwill is not subject to amortisation and the accumulated amortisation as at 31 December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill is tested annually for impairment, as well as when there are indications of impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (Note 5).

The early adoption of HKFRS 3 from 1 January 2004 represents a change in the accounting policy for goodwill and resulted in a decrease of HK$540 million in goodwill amortisation expenses for the year ended 31 December 2004 and an increase of HK$540 million in operating profit.

L Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the accounts when the inflow of economic benefit has become probable and is recognised when the inflow has become virtually certain.

M Asset impairment

Up to 31 December 2003, intangible and tangible assets were tested for impairment when an event that might affect asset carrying value has occurred. A provision for impairment in value was recognised to the extent that the carrying amount cannot be recovered either by selling the asset or from the discounted future earnings from operating the asset. Such provision was recognised in the consolidated profit and loss account.

From 1 January 2004, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3 Principal Accounting Policies (continued)

N Borrowing costs

Borrowing costs are accounted for on an accrual basis and charged to the profit and loss account in the year incurred, except for certain costs related to funding of fixed assets which are capitalised as part of the cost of that asset up to the date of commencement of its operations.

Fees paid for the arrangement of syndicated loan facilities and debt securities are deferred and amortised on a straight line basis over the period of the loans.

O Advertising expenses

Advertising expenses are charged to the consolidated profit and loss account as incurred.

P Stocks

Stocks consist of handsets and phone accessories and are valued using the weighted average cost method. Stocks are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expense.

Q Deferred taxation

Deferred taxation is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the accounts. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences (including tax losses) can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary companies and associated companies, except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

R Pension plans

Pension plans are classified into defined benefit and defined contribution plans.

From 1 January 2002, pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. Cumulative unrecognised net actuarial gains and losses at the previous financial year end to the extent of the amount in excess of 10% of the greater of the present value of plan obligations and the fair value of plan assets at that date are recognised over the average remaining service lives of employees. In accordance with transitional provisions, transitional liabilities at 1 January 2002 are recognised as an expense on a straight line basis over a period of less than five years from 1 January 2002.

The Group's contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

3 Principal Accounting Policies (continued)

R Pension plans (continued)

Pension costs are included in the consolidated profit and loss account within staff costs.

The pension plans are generally funded by the relevant group companies taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

S Foreign exchange

The reporting currency of the Group is Hong Kong dollars. Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of operating profit.

The accounts of overseas subsidiary companies and associated companies and jointly controlled entities are translated into Hong Kong dollars using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the profit and loss account items. Exchange differences are dealt with as a movement in reserves.

The Group endeavours to hedge its foreign currency positions with the appropriate level of borrowings in the same currencies. For transactions directly related to the underlying businesses, forward foreign exchange contracts and interest and currency swaps are utilised when suitable opportunities arise and, when considered appropriate, to hedge against currency exposures as well as assist in managing the Group's interest rate exposures.

Fees paid for the arrangement of the forward foreign exchange contracts and interest and currency swaps are deferred and amortised on a straight line basis over the period of the relevant contract.

T Revenue recognition

The Group recognises revenue on the following bases:

a. Installation and connection fees are recognised on connection of the service.

b. Sales of handsets are recognised upon delivery to the distributors, dealers or directly to customers.

c. Revenues from usage charges, software development services and technical services are recognised when services are rendered and collectibility can be reasonably assured.

d. Revenues from pre-paid calling cards are recognised upon customer's usage of the cards or upon the expiry of the service period.

e. Revenues for monthly fees and value added services are recognised on a time proportion basis, taking into account customers' usage of the services.

f. Network interconnection with international carriers and roaming revenues are recognised as rendered/incurred and are presented on a gross basis.

U Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 Principal Accounting Policies (continued)

V Use of estimates

The preparation of the consolidated accounts in conformity with Hong Kong generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated accounts and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the company may undertake in the future, actual results may be different from the estimates.

W Dilution of interest in subsidiary companies or associated companies

Changes in the Group's proportionate share of the underlying equity of a subsidiary company or associated company, including goodwill which results from the issuance of additional equity by the entity, are recognised as gains or losses as incurred.

4 Turnover

Turnover comprises revenues from the provision of mobile telecommunications services and handset and accessory sales in both Hong Kong and outside Hong Kong and fixed telecommunications and other services in Hong Kong. An analysis of turnover of the Company and subsidiary companies is as follows:

	2003 HK$ millions	**2004 HK$ millions**
Mobile telecommunications services	8,031	**11,858**
Mobile telecommunications products	445	**401**
Fixed telecommunications and other services	1,628	**2,701**
	10,104	**14,960**

5 Segment Information

Segmental information is provided on the basis of primary geographical regions which is the basis on which the Group manages its world-wide interests. The Hong Kong and Macau region is further subdivided based upon its business segments. Management of the Group measures the performance of its segments based upon operating profit.

	Turnover		Operating profit	
	2003 HK$ millions	**2004 HK$ millions**	2003 HK$ millions	**2004 HK$ millions**
Company and subsidiary companies				
Hong Kong and Macau				
Mobile telecommunications (Note b)	3,485	**3,714**	606	**(534)**
Fixed telecommunications and other services	1,628	**2,701**	230	**218**
India	4,497	**7,093**	670	**1,344**
Thailand	355	**1,219**	(1,113)	**(1,071)**
Others (Note a)	139	**233**	(115)	**(151)**
	10,104	**14,960**	278	**(194)**
Profit on partial disposal of a subsidiary company			–	**1,300**
			278	**1,106**

	Depreciation and amortisation		Capital expenditures	
	2003 HK$ millions	**2004 HK$ millions**	2003 HK$ millions	**2004 HK$ millions**
Company and subsidiary companies				
Hong Kong and Macau				
Mobile telecommunications	565	**850**	1,280	**557**
Fixed telecommunications and other services	437	**486**	1,257	**717**
India	872	**857**	1,617	**2,463**
Thailand	305	**791**	1,344	**876**
Others (Note a)	83	**75**	48	**64**
	2,262	**3,059**	5,546	**4,677**

Notes: (a) Others include Paraguay, Sri Lanka, Ghana and Corporate.

(b) The operating loss of Hong Kong and Macau – Mobile telecommunications segment for the year ended 31 December 2004 includes an impairment loss on fixed assets of HK$142 million.

5 Segment Information (continued)

	2003 HK$ millions	**2004 HK$ millions**
Segment assets of Company and subsidiary companies		
Hong Kong and Macau		
Mobile telecommunications	8,393	**8,092**
Fixed telecommunications and other services	7,710	**8,684**
India	11,435	**13,924**
Thailand	5,071	**5,391**
Others (Note a)	1,143	**1,017**
	33,752	**37,108**
Investment in associated companies		
Hong Kong and Macau		
Mobile telecommunications	–	**3**
Fixed telecommunications and other services	164	**3**
Israel	1,417	**1,840**
	1,581	**1,846**
Deferred tax assets		
Hong Kong and Macau		
Mobile telecommunications	474	**373**
India	379	**374**
Thailand	57	**97**
	910	**844**
Total assets	36,243	**39,798**

Segment assets comprise fixed assets, other non-current assets, goodwill, amounts due from related companies, long-term deposits, cash and cash equivalents, restricted cash and other current assets.

5 Segment Information (continued)

	2003 HK$ millions	**2004** **HK$ millions**
Segment liabilities of Company and subsidiary companies		
Hong Kong and Macau		
Mobile telecommunications	11,825	**5,745**
Fixed telecommunications and other services	8,419	**666**
India	12,398	**7,750**
Thailand	6,874	**7,908**
Others (Note a)	2,284	**2,137**
	41,800	**24,206**
Current and deferred tax liabilities		
Hong Kong and Macau		
Fixed telecommunications and other services	–	**16**
India	29	**70**
Thailand	46	**151**
	75	**237**
Total liabilities	41,875	**24,443**

Segment liabilities comprise bank and other loans, debentures, other current liabilities, long-term loans, amounts due to related companies and other long-term liabilities.

Note: (a) Others include Sri Lanka, Paraguay, Ghana and Corporate.

6 Interest and Other Finance Costs, Net

	2003 HK$ millions	**2004 HK$ millions**
Interest and other finance costs		
Company and subsidiary companies		
Bank loans and overdrafts	373	**393**
Other loans repayable within 5 years	82	**71**
Other loans not wholly repayable within 5 years	1	**1**
Debentures repayable within 5 years	79	**58**
Amounts due to related companies	208	**178**
Guarantee and other finance fees	211	**219**
	954	**920**
Less: interest capitalised in respect of construction of fixed assets	(154)	**(28)**
	800	**892**
Share of associated companies' interest and other finance costs	226	**186**
	1,026	**1,078**
Interest income from bank deposits		
Company and subsidiary companies	56	**24**
Interest and other finance costs, net	970	**1,054**

Guarantee and other finance fees included fees paid to related companies amounting to approximately HK$152 million for the year ended 31 December 2004 (2003 – HK$126 million).

The capitalisation rate applied to funds borrowed for the funding of fixed assets is approximately from 1.9% to 6.6%.

7 Directors' Emoluments

(a) Directors' emoluments

Directors' emoluments comprise payments to the Directors of the Company in connection with the management of the affairs of the Group. The emoluments of the Directors of the Company are as follows:

	2003 HK$ millions	**2004 HK$ millions**
Fees	–	**2**
Basic salaries, allowances and benefits-in-kind	6	**9**
Provident fund contributions	–	**1**
Bonuses	8	**12**
	14	**24**

Directors' fees disclosed above include HK$0.6 million (2003 – nil) paid to the three independent non-executive directors of the Company. No emoluments have been paid to independent non-executive directors of the Company for the year ended 31 December 2003 as they were appointed in 2004.

7 Directors' Emoluments (continued)

(a) Directors' emoluments (continued)

HK$	2003 Number of Directors	**2004 Number of Directors**
Nil - 500,000	–	**6**
4,000,001 - 4,500,000	1	**–**
4,500,001 - 5,000,000	–	**1**
5,000,001 - 5,500,000	–	**1**
10,000,001 - 10,500,000	1	**–**
12,500,001 - 13,000,000	–	**1**

No emoluments were paid to any Directors as inducements to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2003 and 2004.

Further details on Directors' emoluments can be found in the Corporate Governance Report on page 53.

The Company has conditionally adopted an option scheme for the purchase of the ordinary shares in the Company. This scheme is subject to HWL's shareholders' approval and permission for the listing of underlying shares from the Listing Committee of the Hong Kong Stock Exchange.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year ended 31 December 2004 were two (2003 – two) Directors of the Company, one executive of the Company (2003 – nil) and two (2003 – three) Directors of subsidiary companies of the Company. The aggregate remuneration paid by the Company and respective subsidiary companies to these highest paid individuals, who are non-directors of the Company, are as follows:

	2003 HK$ millions	**2004 HK$ millions**
Basic salaries, allowances and benefits-in-kind	7	**9**
Provident fund contributions	1	**1**
Bonuses	11	**8**
	19	**18**

The emoluments of the above mentioned three (2003 – three) individuals, who are non-directors of the Company, with the highest emoluments fall within the following bands:

HK$	2003 Number of individuals	**2004 Number of individuals**
4,500,001-5,000,000	–	**1**
5,000,001-5,500,000	1	**–**
6,000,001-6,500,000	1	**–**
6,500,001-7,000,000	–	**2**
7,000,001-7,500,000	1	**–**

No emoluments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2003 and 2004.

8 Taxation

	Current taxation HK$ million	Deferred taxation HK$ million	2003 Total HK$ million	**Current taxation HK$ million**	**Deferred taxation HK$ million**	**2004 Total HK$ million**
Hong Kong						
Subsidiary companies	–	88	88	**4**	**102**	**106**
Associated company	1	–	1	**–**	**–**	**–**
Outside Hong Kong						
Subsidiary companies	21	201	222	**101**	**68**	**169**
Associated company	–	(484)	(484)	**–**	**214**	**214**
	22	(195)	(173)	**105**	**384**	**489**

Hong Kong profits tax has been provided for at the rate of 17.5% (2003 – 17.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less available tax losses.

Thailand	30%
India	36.59%
Sri Lanka	35%
Paraguay	30%
Ghana	32.5%

The India entities benefit from certain tax incentives provided to the telecommunications industry under Indian tax laws. These incentives provide a deduction from taxable income of an amount equal to (a) 100% of profits derived from telecommunication business for the first 5 assessment years commencing at the choice of the Company, at any time during the Benefit Period defined below and (b) 30% of the profits for a further 5 assessment years. The deduction may be claimed, at the option of the Company, for any 10 consecutive assessment years out of 15 years beginning from the year in which the Company starts providing telecommunications service (the "Benefit Period").

The differences between the Group's expected tax charge at respective applicable tax rate and the Group's tax (credit) charge for the years were as follows:

	2003 HK$ millions	**2004 HK$ millions**
Tax calculated at the domestic rates applicable to profits in the country concerned	19	**58**
Income not subject to taxation	(14)	**(219)**
Expenses not deductible for taxation purposes	61	**156**
Recognition of previously unrecognised tax losses of subsidiary companies	(30)	**(178)**
Recognition of previously unrecognised tax losses of an associated company	(484)	**–**
Under provision in prior years	4	**2**
Tax losses not recognised	318	**643**
Effect of change in tax rate	(47)	**27**
Total taxation (credit) charge	(173)	**489**

9 Operating Profit

Operating profit is shown after charging (crediting) the following items:

	2003 HK$ millions	**2004 HK$ millions**
Company and subsidiary companies		
Cost of services provided	4,195	**6,389**
General administration and distribution costs	1,706	**1,949**
Depreciation and amortisation		
Fixed assets	1,597	**2,322**
Goodwill	398	**–**
Telecommunications licences	161	**195**
Telecommunications customer acquisition costs	54	**480**
Prepaid capacity and maintenance	52	**62**
Loss on disposal of fixed assets	29	**2**
Impairment of fixed assets	–	**142**
Write-off of telecommunications customer acquisition costs	234	**150**
Operating leases in respect of		
Properties	516	**540**
Hire of plant and machinery	399	**453**
Auditors' remuneration	6	**20**
Profit on partial disposal of a subsidiary company (Note 15)	–	**(1,300)**
Provision for doubtful debts	397	**153**
Staff redundancy costs	–	**89**
Refund of licence fees in India	(134)	**–**

10 Dividends

The Company did not declare any dividends for the years ended 31 December 2003 and 2004.

Except as permitted under the Companies Law and the common law of the Cayman Islands, the Company is not permitted to distribute dividends unless it has a profit, realised or unrealised, or a reserve set aside from profits which the Directors of the Company determine is no longer needed. As at 31 December 2004, the Group had consolidated accumulated losses of HK$5,923 million, representing accumulated losses in a majority of the Company's subsidiary companies. In relation to the HK$8 billion credit facility with ABN Amro Bank N.V. (Note 19), the Company has agreed to not pay dividends to shareholders for so long as any amounts under that credit facility are outstanding. As at 31 December 2004, HK$1 billion was outstanding under this facility.

Certain of the Company's subsidiary companies in Hong Kong, India and Thailand have entered into loan agreements or credit facilities that restrict their ability to pay dividends or make loans or advances to the Company, conditional either on obtaining prior approval or on meeting certain financial thresholds. Certain of the Company's subsidiary companies in Hong Kong, India and Thailand are also parties or subject to shareholder agreements with non-affiliated shareholders that require the non-affiliated shareholder to approve dividend distributions, advances or loans to the Company. India also restricts the transfer of assets from a member of the Group in that country to a foreign entity such as the Company under certain circumstances. These restrictions could limit the Company's ability to pay dividends in the future.

11 (Loss) Earnings Per Share

The calculation of basic (loss) earnings per share is based on net profit attributable to shareholders of approximately HK$72 million (2003 – net loss attributable to shareholders of HK$214 million) and on 4.5 billion ordinary shares issued upon the Restructuring, as described in Note 1 as if such shares had been outstanding for the years ended 31 December 2003 and 2004.

The amount of diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares in existence for the years ended 31 December 2003 and 2004.

12 Fixed Assets

	Properties HK$ millions	**Telecom-munications and network equipment** HK$ millions	**Construction in progress** HK$ millions	**Other assets** HK$ millions	**Total** HK$ millions
Cost					
At 1 January 2004	142	19,263	2,341	4,352	26,098
Exchange translation differences	16	152	3	61	232
Additions	7	2,913	1,222	535	4,677
Disposals	(19)	(59)	(3)	(424)	(505)
Relating to subsidiary companies acquired (Note 24(b))	45	28	–	11	84
Transfer from other assets	–	23	13	77	113
Transfer between categories	–	2,579	(2,319)	(260)	–
At 31 December 2004	191	24,899	1,257	4,352	30,699
Accumulated depreciation and impairment losses					
At 1 January 2004	20	6,172	–	2,209	8,401
Exchange translation differences	8	20	–	47	75
Charge for the year	12	1,688	–	622	2,322
Disposals	(13)	(48)	–	(408)	(469)
Impairment	–	126	–	16	142
At 31 December 2004	27	7,958	–	2,486	10,471
Net book value					
At 31 December 2003	122	13,091	2,341	2,143	17,697
At 31 December 2004	164	16,941	1,257	1,866	20,228

The carrying values of all fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

12 Fixed Assets (continued)

Other assets include motor vehicles, office furniture and equipment, leasehold improvements and computer equipment.

	2003 HK$ millions	**2004 HK$ millions**
Net book value of properties comprises:		
Hong Kong		
Long leasehold (not less than 50 years)	2	**8**
Medium leasehold (less than 50 years but not less than 10 years)	59	**95**
Outside Hong Kong		
Freehold	35	**32**
Long leasehold	18	**17**
Short leasehold (less than 10 years)	8	**12**
	122	**164**

At 31 December 2004, telecommunications and network equipment includes assets held under defeased finance leases at a cost of HK$3,222 million (2003 – HK$3,222 million) and accumulated depreciation and impairment losses of HK$2,513 million (2003 – HK$2,298 million). Depreciation and impairment loss recognised for the year ended 31 December 2004 amounted to HK$132 million (2003 – HK$119 million) and HK$83 million (2003 – nil) respectively.

During the year ended 31 December 2004, the Office of the Telecommunications Authority of Hong Kong ("OFTA") proposed to grant 3 years moratorium upon expiry of the Group's CDMA licence in 2005, in order for the Group to migrate its CDMA customers to 2G or 3G networks. In addition, as part of the Group's cost saving initiatives, certain network and information technology services and maintenance were outsourced. As a result of the foregoing, the Group recorded an impairment loss on telecommunications and network equipment of HK$142 million for the year ended 31 December 2004.

13 Other Non-Current Assets

	2003 HK$ millions	**2004** **HK$ millions**
Telecommunications licences		
At beginning of year	2,131	**2,489**
Exchange translation differences	18	**91**
Additions	343	**249**
Relating to subsidiary companies acquired (Note 24(b))	158	**–**
Amortisation for the year	161	**195**
At end of year	2,489	**2,634**
Telecommunications customer acquisition costs		
At beginning of year	–	**202**
Exchange translation differences	–	**3**
Additions	490	**728**
Write off during the year	234	**150**
Amortisation for the year	54	**480**
At end of year	202	**303**
Prepaid capacity and maintenance		
At beginning of year	1,288	**1,278**
Additions	42	**22**
Amortisation for the year	52	**62**
At end of year	1,278	**1,238**
Other receivables	106	**164**
	4,075	**4,339**

14 Goodwill

	2003 HK$ millions	**2004 HK$ millions**
Cost		
At beginning of year	7,864	**8,400**
Exchange translation differences	(8)	**6**
Adjustment on goodwill (Note)	–	**(5)**
Relating to subsidiary companies acquired	544	**–**
Relating to a subsidiary company partially disposed of (Note 15)	–	**(30)**
Effect of a change in accounting policy (Note 3K)	–	**(2,232)**
At end of year	8,400	**6,139**
Accumulated amortisation		
At beginning of year	1,834	**2,232**
Charge for the year	398	**–**
Effect of a change in accounting policy (Note 3K)	–	**(2,232)**
At end of year	2,232	**–**
Net book value at end of year	6,168	**6,139**

Note: During the year ended 31 December 2004, the Group finalised its valuation of the fair value of identifiable assets and liabilities of a subsidiary company acquired during the year ended 31 December 2003 and recorded a reduction in goodwill of HK$5 million.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

	2003 HK$ millions	**2004 HK$ millions**
Company and subsidiary companies		
Hong Kong and Macau		
Mobile telecommunications	1,465	**1,465**
Fixed telecommunications and other services	63	**33**
India	4,254	**4,255**
Others (include Paraguay, Sri Lanka and Ghana)	386	**386**
	6,168	**6,139**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on annual budgets approved by management covering a five-year period. For CGU in Paraguay, Sri Lanka and Ghana, cash flow projections were based on a period until their licence expiry in 2012 to 2019. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate in which the CGU operates.

14 Goodwill (continued)

Key assumptions used for value-in-use calculations:

	EBITDA margin[1]	Growth rate[2]	Discount rate[3]
Company and subsidiary companies			
Hong Kong and Macau			
Mobile telecommunications	25%-42%	N/A	10%
Fixed telecommunications and other services	28%-43%	N/A	10%
India	32%-41%	N/A	8%
Others (include Paraguay, Sri Lanka and Ghana)	11%-45%	14%-47%	10%-15%

These assumptions have been used for the analysis of each CGU within the business segment.

1. Budgeted earnings before interest, taxation, depreciation and amortisation ("EBITDA") margin for 2005 to 2009. Management considers EBITDA a proxy for operating cash flow.

2. Weighted average growth rate used to extrapolate cash flows beyond the budget period (until the expiry of the licence period granted).

3. Pre-tax discount rate applied to the cash flow projections reflects specific risks relating to the relevant segments.

Management determined budgeted EBITDA margin and the weighted average growth rates based on past performance of the Group's respective CGUs and its expectations for the development of the market.

15 Associated Companies

	2003 HK$ millions	**2004 HK$ millions**
Investments at cost:		
Listed shares, Hong Kong	171	**–**
Listed shares, outside Hong Kong	586	**586**
Unlisted shares, Hong Kong	–	**8**
Share of undistributed post acquisition reserves	824	**1,252**
Investments in associated companies	1,581	**1,846**

The market value of the listed investments at 31 December 2004 was HK$5,289 million (2003 – HK$5,329 million)

15 Associated Companies (continued)

Details of the Group's principal associated companies are as follows:

	Company name	Place of incorporation/ operation	Principal activity	Percentage of equity attributable to the Group 2003	2004	Nominal value of share capital
(a)	Partner Communications Company Ltd.	Israel	Mobile telecommunications services	43%	**43%**	NIS1,840,372
(b)	Hutchison Global Communications Holdings Limited (Formerly named Vanda Systems & Communications Holdings Limited)	Bermuda/ Hong Kong	System integration & application solution services	37%	**–**	N/A

(a) As at 31 December 2004, certain shares held in Partner Communications Company Ltd. ("Partner") are pledged as security for a US$423 million bank credit facility to Partner from various banks. Such facility contains certain events of default, including in the event that the Group ceases to control at least 30% of the voting rights of Partner. As of 31 December 2004, US$268 million remained outstanding under this facility. This facility is not guaranteed by HWL or other related companies. The financial information of Partner is shown on pages 130 to 131.

(b) At 31 December 2003, the Group owned 37% of Vanda Systems & Communications Holdings Limited ("Vanda"), which was then accounted for as an associated company. In March 2004, Vanda acquired 100% of the Group's fixed-line and data centre businesses, and was renamed as Hutchison Global Communications Holdings Limited ("HGCH"). The Group's stake in HGCH increased to 79% of the enlarged share capital of HGCH as a result of HGCH's acquisition of the fixed-line and data centre businesses. As of March 2004, HGCH was accounted for as a subsidiary company of the Group. Subsequently, following a placement of the Group's shares in HGCH, the Group's stake in HGCH decreased to 52.5%. The gain on disposal of the HGCH shares of approximately HK$1.3 billion was recognised in the consolidated profit and loss account for the year ended 31 December 2004.

16 Amounts due from (to) Related Companies

The related companies are HWL and its direct and indirect subsidiary companies outside the Group. As part of the Restructuring, the net amount due to related companies of HK$20,869 million was capitalised as shareholders' funds. Amounts due from and to related companies are unsecured.

There were no outstanding long-term amounts due from related companies as at 31 December 2004 (2003 – HK$543 million). The maximum interest bearing amounts outstanding during the year ended 31 December 2004 were HK$3,400 million (2003 – HK$52 million).

There were no outstanding long-term amounts due to related companies as at 31 December 2004 (2003 – HK$22,903 million). As at 31 December 2003, HK$7,176 million of the amounts due to related companies was interest bearing and carried interest at normal commercial terms.

Included in other current assets are short-term receivables from related companies of HK$85 million (2003 – nil), which are unsecured, interest free and have no fixed terms of repayment.

16 Amounts due from (to) Related Companies (continued)

Included in other current liabilities are short-term payables to related companies of HK$68 million (2003 – HK$73 million). As at 31 December 2004, HK$43 million (2003 – nil) is unsecured, interest bearing, carries interest at normal commercial terms and repayable on 31 December 2005. The remaining balance of HK$25 million (2003 – HK$73 million) is unsecured, interest free and has no fixed repayment terms.

17 Long-Term Deposits

Long-term deposits are pledged to a bank as collateral to secure a subsidiary company's obligations under the defeasance of finance leases.

18 Other Current Assets

	2003 HK$ millions	**2004 HK$ millions**
Stocks	628	**485**
Trade receivables, net of provision	895	**1,719**
Other receivables and prepayments	1,654	**1,922**
Receivables from related companies	–	**85**
Other current assets	3,177	**4,211**
Cash and cash equivalents	1,993	**2,102**
Restricted cash	6	**10**
	5,176	**6,323**

The Group has established credit policies for customers. The average credit period granted for trade receivables ranges from 30 to 45 days.

	2003 HK$ millions	**2004 HK$ millions**
At end of year, the ageing analysis of the trade receivables net of provision is as follows:		
Current	488	**1,092**
31-60 days	182	**251**
61-90 days	78	**115**
Over 90 days	147	**261**
	895	**1,719**
Analysis of provision for doubtful debts is as follows:		
At beginning of year	368	**486**
Exchange translation differences	12	**5**
Charge to other operating expense	397	**153**
Write off during the year	(291)	**(5)**
At end of year	486	**639**

The short-term receivables from related companies are non-financing in nature and arose during the ordinary course of business.

19 Long-Term Loans

The following table presents the outstanding bank loans and other interest bearing borrowings as at 31 December 2003 and 2004, as well as information regarding maturity of such loans:

	Group 2003 HK$ millions	**Group 2004 HK$ millions**	**Company 2004 HK$ millions**
Bank loans			
Repayable within 5 years	10,571	**15,604**	**1,000**
Not wholly repayable within 5 years	263	**227**	**–**
Less: current portion	(3,723)	**(12,281)**	**(1,000)**
	7,111	**3,550**	**–**
Other loans			
Repayable within 5 years	1,556	**1,331**	**–**
Not wholly repayable within 5 years	16	**15**	**–**
Less: current portion	(1,556)	**(1,316)**	**–**
	16	**30**	**–**
Debentures			
Repayable within 5 years	562	**249**	**–**
Less: current portion	(204)	**(247)**	**–**
	358	**2**	**–**
	7,485	**3,582**	**–**

The long-term loans are repayable as follows:

	Group	
	2003 HK$ millions	**2004 HK$ millions**
Bank loans		
After 1 year, but within 2 years	4,581	**3,045**
After 2 years, but within 5 years	2,469	**484**
After 5 years	61	**21**
Other loans		
After 1 year, but within 2 years	2	**1**
After 2 years, but within 5 years	5	**22**
After 5 years	9	**7**
Debentures		
After 1 year, but within 2 years	358	**2**
	7,485	**3,582**

19 Long-Term Loans (continued)

Long-term loans of the Group, including interest rates and maturities, are summarised as follows:

	Maturity date	Group 2003 HK$ millions	**Group 2004 HK$ millions**	**Company 2004 HK$ millions**
Secured bank loans				
Fixed, 5.31%-7.24% per annum	2005–2006	89	**16**	**–**
Variable, 1.19%-7.40% per annum	2005	3,264	**3,815**	**1,000**
Unsecured bank loans				
Fixed, 2.60%-4.20% per annum	2005	178	**38**	**–**
Variable, 0.90%-7.75% per annum	2005-2010	7,303	**11,962**	**–**
Other unsecured loans				
Fixed, 2.80%-7.75% per annum	2005-2014	800	**524**	**–**
Variable, 3.07%-7.50% per annum	2005-2009	772	**822**	**–**
Debentures				
Fixed, nil to 7.15% per annum	2005-2006	562	**249**	**–**
Total long-term loans, including current maturities		12,968	**17,426**	**1,000**
Current maturities of long-term loans		(5,483)	**(13,844)**	**(1,000)**
Total long-term loans		7,485	**3,582**	**–**

At 31 December 2004, the aggregate principal amounts of long-term debts scheduled for repayment for the next five years were:

	HK$ millions
2005	13,844
2006	3,048
2007	403
2008	43
2009	60
2010 and thereafter	28

In 2002, the Hong Kong 3G business was granted committed short-term revolving credit facilities amounting to HK$2 billion, which were subsequently increased to HK$3 billion and HK$4 billion in 2003 and 2004 respectively. Amounts drawn down at 31 December 2004 were HK$3 billion (2003 – HK$2.3 billion).

In May 2004, Hutchison Telephone Company Limited, a 70.9% owned subsidiary company that holds 2G mobile telecommunications licences in Hong Kong and Macau, was granted a HK$1.1 billion committed short-term term loan facility (which was amended in August 2004 and increased to HK$2 billion) with an international commercial bank, to refinance existing borrowings. The facility contains certain negative pledges and events of default, including in the event that Hutchison International Limited's ("HIL"), a subsidiary company of HWL, direct or indirect shareholding in the Company falls to 50% or less, or the Company's direct or indirect shareholding in the Hong Kong mobile business falls to less than 65%. The facility (as amended) is supported by a letter of comfort from HIL containing the same ownership requirements. As at 31 December 2004, HK$1.1 billion was outstanding under this facility (as amended), which will mature on 17 May 2005, with an option to further extend to 31 December 2005.

19 Long-Term Loans (continued)

In 2004, the Company entered into a HK$8 billion secured revolving loan facility with an international commercial bank. The facility is used as collateral by way of a fixed and floating debenture over the Company's equity interest in, and guarantees from, various intermediate holding companies of the Group's operations, charges over the entire issued share capital of those guarantors and a charge over at least 52% of the issued share capital of Hutchison Global Communications Holdings Limited. At 31 December 2004, HK$1 billion was outstanding under this facility, which will mature on 15 November 2005.

At 31 December 2004, the outstanding loan balances of the Group consist of the following foreign currency denominated loans:

HK$5,045 million	–	denominated in Indian Rupees
HK$2,530 million	–	denominated in Thai Baht
HK$276 million	–	denominated in US dollars
HK$4,326 million	–	denominated in Japanese Yen
HK$27 million	–	denominated in Singapore dollars
HK$11 million	–	denominated in Malaysian Ringgit
HK$16 million	–	denominated in Renminbi

The remaining HK$5,195 million is denominated in Hong Kong dollars.

As at 31 December 2004, total borrowings of HK$11,224 million are guaranteed by HWL and other related companies. Under the terms of a credit support agreement between the Company and HWL, the Company will pay a guarantee fee charged at normal commercial rates and will provide a counter-indemnity in favour of HWL and other related companies in respect of guarantees provided by them for so long as they are not discharged.

As at 31 December 2004, fixed assets and current assets of certain subsidiary companies amounting to HK$5,236 million and HK$95 million, respectively, were used as collateral for certain of the borrowings. The current portion of bank and other loans and debentures of the Group is secured to the extent of HK$3,830 million (2003 – HK$1,422 million). The long-term portion of bank and other loans and debentures of the Group is secured to the extent of HK$1 million (2003 – HK$2,135 million).

The Group has entered into a currency and interest rate swap arrangement with a bank to swap floating rate US dollar borrowings of HK$623 million (2003 – HK$623 million) into fixed rate Indian Rupees borrowings at 4.3% per annum (2003 – 4.3% per annum) to match currency and interest rate exposure of the underlying businesses.

The Group has entered into currency swap arrangement with banks to swap Japanese Yen borrowings of HK$4,326 million (2003 – HK$2,292 million) and US dollar borrowings of HK$227 million (2003 – HK$263 million) into Thai Baht borrowings to match currency exposure of the underlying businesses.

20 Other Current Liabilities

	2003 HK$ millions	**2004** **HK$ millions**
Trade payables	941	**1,192**
Accrued expenses and other payables	2,765	**3,975**
Deferred revenue	882	**382**
Receipts in advance	534	**781**
Capital expenditure accruals	719	**258**
Payables to related companies	73	**68**
Taxation	29	**89**
	5,943	**6,745**
At end of year, the ageing analysis of the trade payables is as follows:		
Current	613	**487**
31-60 days	133	**106**
61-90 days	84	**125**
Over 90 days	111	**474**
	941	**1,192**

The short-term payables to related companies are non-financing in nature and arose during the ordinary course of business. As at 31 December 2004, included in payables to related companies is accrued interest payable amounting to HK$25 million (2003 – HK$37 million).

21 Deferred Taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003 HK$ millions	**2004 HK$ millions**
Deferred tax assets	910	**844**
Deferred tax liabilities	46	**148**
Net deferred tax assets	864	**696**
Movements in net deferred tax assets are as follows:		
At beginning of year	1,139	**864**
Exchange translation differences	14	**2**
Net charge for the year	(289)	**(170)**
At end of year	864	**696**
Analysis of net deferred tax assets (liabilities):		
Tax losses	1,771	**2,125**
Accelerated depreciation allowances	(907)	**(1,429)**
	864	**696**
The potential deferred tax assets which have not been recognised for in the accounts are as follows:		
Arising from unused tax losses	718	**1,401**
Arising from accelerated depreciation allowances	–	**35**

The utilisation of unused tax losses depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

Out of the total unrecognised tax losses of HK$5,760 million (2003 – HK$5,916 million) carried forward, an amount of HK$4,553 million (2003 – HK$3,984 million) can be carried forward indefinitely. The remaining HK$1,207 million (2003 – HK$1,932 million) will expire in the following years:

	2003 HK$ millions	**2004 HK$ millions**
2004	12	**–**
2005	90	**1**
2006	102	**7**
2007	389	**6**
2008	1,339	**3**
After 2008	–	**1,190**
	1,932	**1,207**

22 Other Long-Term Liabilities

	2003 HK$ millions	**2004** **HK$ millions**
Pension obligations	15	**12**
Deferred revenue	–	**30**
Accrued expenses and other payables	–	**82**
	15	**124**
Analysis of pension obligations is as follows:		
Pension obligations, at beginning of year	–	**15**
Total expense	48	**36**
Contributions paid	(33)	**(39)**
Pension obligations, at end of year	15	**12**

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

(a) Defined benefit plans

The Group's defined benefit plans represent contributory final salary pension plans in Hong Kong. At 31 December 2004, the Group's plans were valued by Watson Wyatt Hong Kong Limited, qualified actuaries using the projected unit credit method to account for the Group's pension accounting costs.

The principal actuarial assumptions used for accounting purposes are as follows:

	2003	**2004**
Discount rate applied to defined benefit plan obligations	4.5%-9.5%	**3.5%-3.75%**
Expected return on plan assets	8.0%	**8.0%**
Future salary increases	3.0%-7.0%	**3.0%-4.0%**
Interest credited on plan accounts	nil-6.0%	**5.0%-6.0%**

22 Other Long-Term Liabilities (continued)

(a) Defined benefit plans (continued)

	2003 HK$ millions	**2004 HK$ millions**
The amount recognised in the consolidated balance sheet is determined as follows:		
Present value of defined benefit obligations	316	**409**
Fair value of plan assets	265	**315**
Deficit	51	**94**
Unrecognised actuarial losses	36	**82**
Net defined benefit plan obligations	15	**12**

	2003 HK$ millions	**2004 HK$ millions**
The amount recognised in the consolidated profit and loss account is as follows:		
Current service cost	48	**44**
Interest cost	15	**15**
Expected return on plan assets	(20)	**(24)**
Net actuarial losses recognised	5	**1**
Total expense, included in staff costs	48	**36**

The actual loss on plan assets during the year ended 31 December 2004 was HK$8 million (2003 – gain of HK$32 million).

There is no immediate requirement for the Group to fund the deficit between the fair value of defined benefit plan assets and the present value of the defined benefit plan obligations disclosed as at 31 December 2004. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. The realisation of the deficit is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. Funding requirements of the Group's major defined benefit plans are detailed below.

22 Other Long-Term Liabilities (continued)

(a) Defined benefit plans (continued)

The Group operates two principal plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. A formal independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 29 February 2004 reported a funding level of 99% of the accrued actuarial liabilities on an ongoing basis. The employers' annual contributions were adjusted to fully fund the plan as advised by the independent actuaries. The valuation used the aggregate cost method and the main assumptions in the valuation are an investment return of 6.0% per annum and salary increases of 4.0%. The valuation was performed by Tian Keat Aun, a Fellow of The Institute of Actuaries, of Watson Wyatt Hong Kong Limited. The funding of the plan will be reassessed based upon the results of next formal actuarial valuation to be completed by 28 February 2007 in accordance with the requirements of ORSO. The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2004, the plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements.

(b) Defined contribution plans

The employees of certain subsidiary companies are entitled to receive benefits from a provident fund, which is a defined contribution plan. The employee and the employer both make monthly contributions to the plan at a predetermined rate of the employees' basic salary. The Group has no further obligations under the plan beyond its monthly contributions. The Fund is administered and managed by the relevant government agencies. The Group's costs in respect of defined contribution plans for the year ended 31 December 2004 amounted to HK$25 million (2003 – HK$15 million). Forfeited contributions totaling HK$1 million (2003 – HK$1 million) were used to reduce the current year's level of contribution.

23 Minority Interests

	2003 HK$ millions	**2004** **HK$ millions**
Equity interests	577	**1,064**
Loans – interest free	162	**–**
Loans – interest bearing	4	**4**
	743	**1,068**

The loans are unsecured and have no fixed terms of repayment.

24 Notes to Consolidated Cash Flow Statement

(a) Changes in working capital

	2003 HK$ millions	**2004 HK$ millions**
(Increase) decrease in stocks	(570)	**143**
Increase in trade receivables, other receivables and prepayments, other non-current receivables and prepaid capacity and maintenance	(755)	**(1,081)**
Increase in short-term receivables from related companies	–	**(85)**
Increase in trade payables, accrued expenses and other payables, deferred income, receipts in advance and capital expenditure accruals	381	**1,063**
Decrease in short-term payables to related companies	(111)	**(5)**
	(1,055)	**35**

(b) Purchases of subsidiary companies

	2003 HK$ millions	**2004 HK$ millions**
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	27	**84**
Associated companies	–	**3**
Telecommunications licences	158	**–**
Trade and other receivables	361	**282**
Bank and other loans	–	**(128)**
Trade and other payables	(868)	**(304)**
Goodwill	544	**–**
Minority interests	(133)	**8**
	89	**(55)**
Less: Investment amount held prior to purchase	–	**(14)**
	89	**(69)**
Discharged by:		
Cash payment	151	**–**
Less: Cash and cash equivalents purchased	(62)	**(69)**
Total net cash consideration	89	**(69)**

The effect of the acquisition of the subsidiary companies on the Group's results is immaterial to the years ended 31 December 2003 and 2004.

24 Notes to Consolidated Cash Flow Statement (continued)

(c) Analysis of changes in financing during the year

	Amounts due to related companies HK$ millions	Bank loans, other loans and debentures HK$ millions	Minority interests HK$ millions	Total HK$ millions
At 1 January 2003	18,805	12,902	327	32,034
New loans	4,098	13,065	–	17,163
Repayment of loans	–	(13,312)	–	(13,312)
Issuance of shares by a subsidiary company to minorities	–	–	175	175
Net cash flows from financing activities	4,098	(247)	175	4,026
Minority interests in profit	–	–	286	286
Exchange translation differences	–	313	(178)	135
Relating to subsidiary companies acquired	–	–	133	133
At 31 December 2003	22,903	12,968	743	36,614
At 1 January 2004	22,903	12,968	743	36,614
New loans	479	9,142	–	9,621
Repayment of loans	(725)	(5,094)	–	(5,819)
Net cash flows from financing activities	(246)	4,048	–	3,802
Minority interests in profit	–	–	244	244
Exchange translation differences	–	282	(64)	218
Relating to a subsidiary company partially disposed of	–	–	153	153
Relating to subsidiary companies acquired	–	128	(8)	120
Shareholders' loans capitalisation	(22,925)	–	–	(22,925)
Share issuance expenses	414	–	–	414
Waiver of loan from an intermediate holding company	(146)	–	–	(146)
At 31 December 2004	–	17,426	1,068	18,494

As part of the Restructuring, HK$22,925 million of the amounts due to related companies was offset with HK$2,056 million amounts due from related companies, and the net amount of HK$20,869 million was capitalised on 22 September 2004 as share capital and share premium of the Company.

25 Share Capital

Upon incorporation on 17 March 2004, the Company had an authorised share capital of US$50,000 divided into 50,000 ordinary shares of a nominal value or par value of US$1.00 each.

On 25 March 2004, one ordinary share of US$1.00 was allotted and issued for cash at par to the initial subscriber who immediately transferred the said one share to Hutchison Telecommunications Investment Holdings Limited ("HTIHL").

On 3 September 2004, four shares of US$1.00 each were allotted and issued for cash at par to HTIHL.

On 3 September 2004, the nominal value of the Company's shares was changed from US$1.00 to HK$0.25 through the following steps:

(a) the authorised and issued share capital of US$50,000 and US$5.00 were re-denominated to HK$390,000 and HK$39 respectively by adopting the exchange rate of US$1.00 to HK$7.8;

(b) every issued and unissued share of HK$7.8 was subdivided into 780 shares of HK$0.01 each;

(c) every 25 shares of HK$0.01 each in the Company's issued and unissued share capital were consolidated into one share of HK$0.25; and

(d) the authorised share capital was then increased from HK$390,000 to HK$2,500 million and US$10,000 by the creation of 9,998,440,000 ordinary shares of HK$0.25 each and 1,000,000 non-voting redeemable preference shares with a nominal value of US$0.01 each.

On 22 September 2004, 804,917,650 shares were allotted and issued, credited as fully paid, to HTIHL for a consideration of HK$6,975,953,205.54.

On 22 September 2004, 3,695,082,194 shares were allotted and issued, credited as fully paid, to HTIHL as consideration for the acquisition of the entire issued share capital of Hutchison Telecommunications International (Cayman) Holdings Limited and for the capitalisation of the loans extended to Hutchison Telecommunications International (Cayman) Holdings Limited.

Upon completion of the Restructuring and as at 31 December 2004, the authorised share capital of the Company is HK$2,500,000,000 and US$10,000 divided into 10,000,000,000 ordinary shares and 1,000,000 preference shares, and the issued share capital is HK$1,125,000,000 divided into 4,500,000,000 ordinary shares, fully paid or credited as fully paid.

The share capital presented in the consolidated balance sheet as at 31 December 2003 represents the aggregated issued capital of the Group's intermediate holding companies totalling less than HK$3,000. The share capital was rounded down to zero and not presented in the consolidated balance sheet.

The Company has conditionally adopted an option scheme for the purchase of ordinary shares of the Company. This scheme is subject to Hutchison Whampoa Limited's shareholders' approval and permission for the listing of the underlying shares from the Listing Committee of the Hong Kong Stock Exchange.

26 Contingent Liabilities

At 31 December 2004, the Group had contingent liabilities in respect of performance guarantees amounting to HK$564 million (2003 – HK$456 million). In addition, the Group had contingent liabilities in India in respect of sales taxes payable on revenues earned from airtime, activation fees and/or monthly rentals. The claims to date amount to HK$157 million (2003 – HK$91 million). The Group has been successful in obtaining Court orders restraining any further action by the Sales tax authorities pending a final ruling on this matter by the Supreme Court of India. However, if the Sales tax authorities were successful in obtaining a favourable ruling that sales tax was payable on all the aforementioned revenues streams, it is possible that this ruling may be applied retrospectively and in this situation the Group estimates the maximum aggregate amount payable to be approximately HK$468 million. The Group considers that the Sales tax authorities' claims are without foundation. The Group is vigorously defending all claims and have successfully obtained stay orders in respect of all proceeding implemented by the Sales tax authorities to date. No amounts have been recognised in respect of the contingent liabilities as it is expected that the Group will meet the requisite performance criteria and will be successful in its defence against the claims.

27 Commitments

Outstanding Group commitments not provided for in the accounts at 31 December 2004 are as follows:

(a) Capital commitments

	Telecommunications, mobile network		**Telecommunications, fixed network**	
	2003 HK$ millions	**2004 HK$ millions**	2003 HK$ millions	**2004 HK$ millions**
Contracted but not provided for	1,987	**1,621**	1,129	**638**
Authorised but not provided for (Note)	9,284	**7,467**	1,102	**1,898**
	11,271	**9,088**	2,231	**2,536**

Note: The Group, as part of its budgeting process, estimates future capital expenditures as shown above. These estimates are subject to vigorous authorisation process before the expenditure is committed.

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		**Other assets**	
	2003 HK$ millions	**2004 HK$ millions**	2003 HK$ millions	**2004 HK$ millions**
Not later than one year	376	**343**	278	**201**
Later than one year and not later than five years	490	**448**	98	**123**
Later than five years	596	**547**	2	**51**
	1,462	**1,338**	378	**375**

27 Commitments (continued)

(c) Commitments – fixed periodic payments for the right to use spectrum

	2003 HK$ millions	**2004 HK$ millions**
Not later than one year	50	**50**
Later than one year and not later than five years	230	**261**
Later than five years	926	**846**
	1,206	**1,157**

(d) Funding Commitments

The Group has agreed to provide or arrange necessary funding for its Thailand operations in the event additional equity funding is to be contributed.

The Group holds call options, both directly and indirectly, which, if exercised, would entitle the Group to additional equity interests in its operating and investment holding companies in India, in each case subject to the Indian government's foreign ownership regulation. Conversely, some Indian shareholders hold put options that could, again subject to the foreign ownership restrictions, require the Group to purchase additional equity interests in the operating companies or investment holding companies through which the Group holds indirect interests in the operating companies. The call and put options are exercisable at fair market value to be determined at the time of exercise by the parties' agreements. Also, one of the Indian shareholders has a call option that could, in certain circumstances, dilute to some extent the Group's indirect minority holdings in the Indian operating companies.

GMRP (Thailand) Limited ("GMRP") has granted a call option to the Group and the Group has granted a put option to GMRP in respect of up to all of the shares in Hutchison Wireless MultiMedia Holdings Limited ("HWMHL"), the holding company of Hutchison CAT Wireless MultiMedia Limited, held by GMRP.

HWMHL has granted an option to the CAT Telecom Public Company Limited ("CAT Telecom") to swap the shares which CAT Telecom holds in Hutchison CAT Wireless MultiMedia Limited with the shares of HWMHL or BFKT (Thailand) Limited.

DPBB (Thailand) Limited ("DPBB") has granted a call option to the Group and the Group has granted a put option to DPBB in respect of up to all the preference shares in the share capital of PKNS (Thailand) Limited, the holding company of BFKT (Thailand) Limited, held by DPBB.

The Group holds an option to acquire the Hutchison Group's mobile telecommunications related interests in Hutchison Telecommunications Argentina S.A..

28 Related Party Transactions

In addition to interest on amounts due to related companies and guarantee fee paid to related companies disclosed in Note 6 to the accounts, the Group has entered into other transactions, which in the opinion of the Directors are on normal commercial terms and the ordinary and usual course of the Group's business, with Hutchison Group and other shareholders and joint venture partners of the Group's operating companies who exercise significant influence, together with other Group companies. The transactions and balances of the following related party groups are narrated below:

Related Party Group:

(1) Hutchison Group-HWL together with its direct and indirect subsidiary companies outside the Group.

(2) Other shareholders and joint venture partners:

(a) NEC Group

(b) KM Group-Kotak Mahindra Finance Ltd together with subsidiary and associated companies.

(c) Essar Group

(d) CAT Telecom

(e) Kludjeson International Limited

28 Related Party Transactions (continued)

		2003 HK$ millions	2004 HK$ millions
Transactions during the years:			
(a)	**HWL Group**		
	Fixed telecommunications and other services	(33)	**(51)**
	Mobile telecommunications services income	(11)	**(14)**
	Rental expenses on lease arrangements	83	**85**
	Bill collection services fee expenses	5	**8**
	Roaming arrangement fee income	(8)	**(14)**
	Sharing of services arrangements	39	**22**
	Dealership services fee expenses	8	**10**
	Global procurement services arrangements	99	**82**
	Provision of data centre services	(16)	**(20)**
	Sales of handsets	–	**(46)**
	3G handset development costs recharge income	–	**(47)**
	Purchase of handset accessories	–	**32**
	Purchase of office supplies	–	**6**
	Advertising and promotion expenses	–	**5**
	Waiver of loan	–	**146**
(b)	**NEC Group**		
	Purchase of handsets	21	**665**
(c)	**KM Group**		
	Mobile telecommunications services income	(1)	**(5)**
	Customary fee and commission expenses	22	**10**
(d)	**Essar Group**		
	Mobile telecommunications services income	(3)	**(14)**
	Roaming arrangement fee income	(1)	**(4)**
	Roaming cost	4	**1**
	Rental income	(1)	**–**
(e)	**CAT Telecom**		
	Share of revenue from mobile phone services	67	**218**
	Network operating expenses	23	**45**

28 Related Party Transactions (continued)

	2003 HK$ millions	**2004 HK$ millions**
Balances outstanding at end of year:		
(a) CAT Telecom		
Payable outstanding at end of year	30	**89**
(b) Kludjeson International Limited		
Loan outstanding at end of year	4	**4**

Effective 27 August 2003, the Group acquired from Essar Group over 99% of the ownership interest in Aircel Digilink India Limited in exchange for 33% of the equity of Hutchison Telecom East Limited, valued at HK$319 million.

Pursuant to an agreement entered into in July 2003 with Essar Group, HWL agreed to continue to provide guarantees amounting to HK$2,028 million for loans to Essar Group. In 2004, the Company had provided a counter-indemnity to HWL for the guarantees it has given in favour of Essar Group.

29 Legal Proceedings

Save as disclosed in Note 26 in respect of the claims against the Group for sales taxes, the Group is not engaged in any material litigation or arbitration proceeding, and no material litigation or claim is known by the Group to be pending or threatened against it.

30 Subsequent Events

(a) Cost Saving Initiatives

On 5 January 2005, the Company announced that as part of its ongoing efforts to improve financial performance amid the increasingly difficult market environment globally, particularly in Hong Kong, it had reviewed the cost components of a number of its operations and decided to outsource certain functions such as network and IT services and maintenance. As a result of the outsourcing, there was a reduction in total of around 750 staff of group companies in Hong Kong, around 86.8% of whom were from the mobile operations. The measures were intended to enhance the financial performance and organisational efficiency of the Group and is expected to translate into more cost-effective operations while maintaining or exceeding current service levels to customers.

(b) Reorganisation of India Operations

On 1 February 2005, the Group's various mobile interests in India were reorganised under Hutchison Max Telecom Limited, the Group's mobile telecommunications operator in Mumbai. The reorganisation has created one of the largest mobile companies in India and is expected to result in many operating synergies, including more efficient management and a more efficient use of resources and funds between the various operating companies. In addition, management believes that the new structured company will be better placed to access the debt and equity markets in India.

(c) Offer to Sell Shares to Partner

On 7 February 2005, three of the founding Israeli shareholders of Partner irrevocably offered to sell all of their Partner shares to Partner and another of the Israeli founding shareholders has an option to participate in the sale. On 23 February 2005, Partner's Board of Directors approved the acceptance of the offer. Acceptance of the offer is subject to Partner's shareholders' approval. If such approval is granted and all conditions precedent are satisfied, upon completion of the buy back the Group's interest in Partner will increase from approximately 43% to over 50%.

30 Subsequent Events (continued)

(d) Investment Licence for Vietnam

On 18 February 2005, Hutchison Telecommunications (Vietnam) S.à.r.l. received an investment licence from the Ministry of Planning and Investment of Vietnam to permit it to engage in a business cooperation with Hanoi Telecommunication Joint Stock Company to build, develop and operate a mobile telecommunications network in Vietnam. The business cooperation will develop a CDMA2000 network to provide mobile telecommunications services in Vietnam. The licence has been granted for 15 years.

(e) Termination of Aircel Acquisition

On 19 June 2004, Aircel Digilink India Limited ("ADIL"), one of the Group's subsidiary companies in India, signed a preliminary agreement with Aircel Tele Ventures Limited ("Vendor") to acquire Aircel Limited and Aircel Cellular Limited (together "Aircel"). On 7 March 2005, ADIL and the Vendor entered into an agreement for the immediate termination of the Group's obligation to acquire the entire interest in Aircel under the preliminary agreement.

31 Ultimate Holding Company

The Directors regard Hutchison Whampoa Limited, a company incorporated in Hong Kong and listed on the Main Board of Hong Kong Stock Exchange, as being the ultimate holding company.

32 US Dollar Equivalents

The US dollar equivalents of the figures shown in the accounts have been translated at the rate of HK$7.80 to US$1. Such translation should not be construed as representations that the Hong Kong dollar amounts represent, or have been or could be converted into, US dollar at that or any other rate.

33 Approval of Accounts

The accounts set out on pages 81 to 129 were approved by the Board of Directors on 7 March 2005.

34 Balance Sheet of the Company, Unconsolidated

In accordance with the disclosure of the Companies Ordinance of Hong Kong, the balance sheet of the Company as at 31 December 2004 is as follows:

	2004 HK$ millions
ASSETS AND LIABILITIES	
Non-current assets	
Unlisted shares, at cost (Note a)	–
Loans to subsidiary companies (Note b)	20,870
Total non-current assets	**20,870**
Bank balances	10
Other receivables and prepayments	21
Amounts due from subsidiary companies (Note b)	671
Bank loans (Note 19)	1,000
Amount due to a related company (Note c)	43
Accrued expenses and other payables	77
Net current liabilities	**(418)**
Total assets less current liabilities	**20,452**
Net assets	**20,452**
CAPITAL AND RESERVES	
Share capital (Note 25)	1,125
Reserves (Note d)	19,327
Shareholders' funds	20,452

Dennis Pok Man LUI
Director

Tim Lincoln PENNINGTON
Director

34 Balance Sheet of the Company, Unconsolidated (continued)

Notes: (a) As at 31 December 2004, the Company's cost of investment in its subsidiary companies amounted to HK$17.60. These investment costs were rounded down to zero and not presented in the Company's balance sheet.

Particulars of the principal subsidiary companies as at 31 December 2004 are set forth on pages 127 to 129.

(b) The loans to and amounts due from subsidiary companies are unsecured, interest free and have no fixed term of repayment.

(c) The amount due to a related company is unsecured, interest bearing and repayable on 31 December 2005.

(d) Reserves

		Reserves			Total
	Share Capital HK$ millions	**Share Premium** HK$ millions	**Accumulated Losses** HK$ millions	**Subtotal** HK$ millions	**Shareholders' funds** HK$ millions
Upon incorporation on 17 March 2004	–	–	–	–	–
Issuance of ordinary shares	1,125	19,744	–	19,744	20,869
Share issuance expenses	–	(414)	–	(414)	(414)
Loss for the year	–	–	(3)	(3)	(3)
At 31 December 2004	1,125	19,330	(3)	19,327	20,452