Overview

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in the annual report. Our consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively "HKFRS"), which differs in some material aspects from US GAAP. For a discussion of these differences and a reconciliation of net (loss) profit attributable to shareholders and shareholders' (deficits) funds to US GAAP, see "Information for US Investors".

The Group had a good year in 2005, with turnover from continuing operations increased to HK$24.4 billion, as our total customer base increased to 16.9 million customers as of 31 December 2005. Operating profit before disposal of investments and others increased to HK$2,083 million, reflecting improving margins as our business continued to grow and benefited from economies of scale. In particular, we experienced strong growth in our India operations, which saw an increase of 40.9% in turnover and an increase of 81.5% in operating profit before disposal of investments and others.

In addition, the Group undertook a number of transactions in 2005 that affected its results for 2005 or will affect the Group's results going forward.

- Partner in Israel undertook a share buy back that had the effect of increasing the Group's stake in Partner to 52.2%. From April 2005 Partner was consolidated in the Group's financial statements whereas it was previously accounted for as an associated company, which among other things had the effect of increasing the Group's turnover by HK$6,612 million, operating profit before disposal of investments and others by HK$832 million and operating expenses by HK$5,780 million.
- The Group privatised its Hong Kong listed fixed-line subsidiary HGC, acquiring an additional 47.47% through the issue of approximately 253 million new shares and payment of approximately HK$475 million in cash. The cash consideration was satisfied by increased borrowings of HK$475 million. We have now started the process of integrating the fixed and mobile operations in Hong Kong.
- Hutchison Essar in India entered into an agreement to buy BPL Mobile Communications Limited and BPL Mobile Cellular Limited for a total consideration of INR 50,649 million (or approximately HK$8,999 million) and Essar Spacetel Limited for a total consideration of INR 255 million (or approximately HK$45.2 million), paving the way to nationwide coverage in India.
- The Group entered the Indonesia market through its acquisition of a 60% interest in PT Hutchison CP Telecommunications Indonesia for US$120 million (or approximately HK$936 million). PT Hutchison CP Telecommunications is a company with a nationwide GSM and UMTS licence and the network build out is now underway.
- The Group obtained an investment licence to build and operate a nationwide network in Vietnam in cooperation with Hanoi Telecom, and the network build out is now underway.
- The Group disposed of its interests in its operations in Paraguay, which resulted in a loss from discontinued operations in 2005 of HK$352 million.

Group Results

Basis of Preparation of Financial Statements

The Group was formed in March 2004 in preparation for a restructuring by Hutchison Whampoa during the third quarter of 2004. In connection with the restructuring, Hutchison Whampoa and a number of its affiliates transferred to us their holdings in certain mobile and fixed-line telecommunications businesses. We also issued additional ordinary shares as a part of the restructuring to capitalise substantially all of the outstanding loans from the Hutchison Whampoa group, net of receivables from such companies, in the aggregate amount of HK$20,869 million.

The restructuring has been accounted for as a reorganisation of businesses under common control, in a manner similar to a pooling of interests. Our consolidated financial statements have been prepared as if our Company and the structure of our ownership of our subsidiaries had been in existence at all dates and during all years presented, and include the accounts of the direct and indirect subsidiaries and the interests and investments in associated companies and jointly controlled entities contributed to us by the Hutchison Whampoa group in connection with the restructuring. The results of operations of subsidiaries, associated companies and jointly controlled entities acquired or disposed of during a year are included in our consolidated financial statements commencing from the effective dates of their acquisition or up to the effective dates of their disposal, as the case may be.

During 2005, the Group changed certain accounting policies following its adoption of new or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for accounting periods commencing on or after 1 January 2005. The adoption of Hong Kong Financial Reporting Standards is in accordance with the Hong Kong Institute of Certified Public Accountants' policy objective of full convergence with International Financial Reporting Standards and interpretations established by the International Accounting Standards Board.

The adoption of the new Hong Kong Financial Reporting Standards from 1 January 2005 resulted in a decrease in opening reserves as at 1 January 2005 by HK$437 million and a loss to equity holders of the Company for the year ended 31 December 2005 of HK$154 million (2004 - HK$102 million).

We group our subsidiaries into the following six business segment for financial reporting purposes, based on their geographic area of operation and principal business line:

- India
- Israel
- Hong Kong mobile
- Hong Kong fixed-line
- Thailand
- Others

The results of operations of our Macau mobile business are aggregated with our Hong Kong mobile business because our Macau operating company is a subsidiary of our Hong Kong mobile operating company, shares the same management and is significantly smaller in terms of financial results and customer numbers.

"Others" is currently comprised of Sri Lanka, Ghana, Indonesia, Vietnam, the Group's non-telecommunications businesses in Hong Kong, the People's Republic of China and Singapore and Corporate. "Others" in the prior year was comprised of Sri Lanka, Ghana, the Group's non-telecommunications businesses in Hong Kong, the People's Republic of China and Singapore and Corporate.

The following table presents the amounts and percentages of turnover of the major line items in our consolidated profit and loss account:

	Year ended 31 December			
	2004 (As restated)*		2005	
	(HK$ in millions, except percentages)			
Continuing operations:				
Turnover	$14,845	100.0%	$24,356	100.0%
Operating expenses				
Cost of inventories sold	(1,373)	(9.2)%	(2,331)	(9.6)%
Staff costs	(1,586)	(10.7)%	(2,319)	(9.5)%
Depreciation and amortisation	(3,117)	(21.0)%	(4,367)	(18.0)%
Other operating expenses	(8,913)	(60.0)%	(13,256)	(54.4)%
Operating (loss)/profit before disposal of investments and others	(144)	(0.9)%	2,083	8.5%
Share of results of associated companies	338	2.2%	86	0.4%
Profit on disposal of investments and others	1,300	8.8%	71	0.3%
Operating profit	1,494	10.1%	2,240	9.2%
Interest and other finance costs, net	(1,015)	(6.8)%	(1,604)	(6.6)%
Profit before taxation	479	3.3%	636	2.6%
Current taxation charge	(105)	(0.7)%	(229)	(1.0)%
Deferred taxation charge	(80)	(0.6)%	(205)	(0.8)%
Profit for the year from continuing operations	294	2.0%	202	0.8%
Discontinued operations:				
Loss from discontinued operations	(54)	(0.4)%	(352)	(1.4)%
Profit/(loss) for the year	$240	1.6%	$(150)	(0.6)%
Attributable to:				
Equity holders of the Company				
- continuing operations	24	0.2%	(416)	(1.7)%
- discontinued operations	(54)	(0.4)%	(352)	(1.4)%
	(30)	(0.2)%	(768)	(3.1)%
Minority interests - continuing operations	270	1.8%	618	2.5%
	$240	1.6%	$(150)	(0.6)%

* *The 2004 accounts have been restated as a result of adoption of HKFRS and other matters, the effects of which are outlined in Note 2(a) in the notes to the accounts.*

In the first three months in 2005, the Group accounted for Partner as an associated company. In April 2005, Partner completed a buy back of its own shares increasing the Group's interest to over 52% and resulting in Partner becoming a consolidated subsidiary. Partner's contribution to operating profit was HK$88 million for the first three months of 2005 as an associated company. The following table sets out Partner's contribution from April 2005 to December 2005 to the Group's consolidated profit and loss account as well as the Group's proforma consolidated profit and loss account if Partner had not been accounted as a subsidiary:

	As audited	Partner's contribution	Pro-forma
	HK$ millions	HK$ millions	HK$ millions
Turnover	$24,356	$6,612	$17,744
Operating expenses			
Cost of inventories sold	(2,331)	(1,121)	(1,210)
Staff costs	(2,319)	(778)	(1,541)
Depreciation and amortisation	(4,367)	(1,149)	(3,218)
Other operating expenses	(13,256)	(2,732)	(10,524)
Operating profit before disposal of investments and others	2,083	832	1,251
Share of results of associated companies	86	–	86
Profit on disposal of investments and others	71	(5)	76
Operating profit	$2,240	$827	$1,413

Turnover

Our turnover increased by 64.1% from HK$14,845 million in 2004 to HK$24,356 million in 2005. Excluding the first time consolidation of Partner as a subsidiary, underlying turnover growth from continuing operations was 19.5%. The key contributor to the underlying growth in turnover was the 38.6% increase in our customer base, which increased to 16.9 million in 2005 from 12.2 million in 2004. Most of our operating companies reported an increase in turnover in 2005 with particularly strong growth in India. The customer base of our India operations increased by 59.4% from 7.2 million to 11.4 million.

The consolidation of Partner for the first time in 2005 resulted in Israel contributing 27.1% to the Group's turnover, whilst turnover from India represented 41.0%, Hong Kong and Macau 24.8% (of which mobile operations represented 15.8% and fixed-line operations represented 9.0%), Thailand 4.3% and other operations 2.8%.

The majority of our turnover comes from mobile telecommunications services, which represented 86.2% of total turnover compared to 79.1% in 2004. The balance came from fixed line telecommunications services representing 9.0%, mobile telecommunications products such as handset and accessory sales which represented 2.7% and other non telecommunications businesses, principally relating to the IT solutions business of Vanda, which represented 2.1%.

Operating Profit Before Disposal of Investments and Others

Our operating profit before disposal of investments and others improved to HK$2,083 million in 2005, as compared to a loss of HK$144 million in 2004. Excluding Partner, operating profit before disposal of investments and others was HK$1,251 million. The Group's strong results from operations in India, and a further reduction in operating losses from Thailand, were the main contributors to the underlying growth in operating profit before disposal of investments and others.

Operating Expenses

The following table presents a breakdown of operating expenses from continuing operations and the percentage change from year to year:

	Year ended 31 December		
	2004	2005	% Change
	(HK$ millions)		
Cost of inventories sold	$1,373	$2,331	+ 69.8%
Staff costs	1,586	2,319	+ 46.2%
Depreciation and amortisation	3,117	4,367	+ 40.1%
Other operating expenses	8,913	13,256	+ 48.7%
Operating expenses	$14,989	$22,273	+ 48.6%

The increase in operating expenses was primarily attributable to the first time inclusion of Partner as a consolidated subsidiary in 2005 together with higher levels of activity in our business. Operating expenses increased only 48.6% over 2004 compared to turnover which increased by 64.1% over 2004. Excluding Partner, operating expenses increased by 10.0% from 2004 to 2005, compared to turnover which increased by 19.5%. As a percentage of turnover, operating expenses decreased from 101.0% in 2004 to 91.4% in 2005. Excluding Partner, operating expenses declined to 92.9% of turnover.

Cost of inventories sold increased by 69.8% from HK$1,373 million in 2004 to HK$2,331 million in 2005, mainly due to the consolidation of Partner. Excluding Partner, cost of inventories decreased by 11.9% which largely reflects a change in the presentation of revenue in Vanda's IT solutions operation from gross to net basis. This had no impact on operating profit but had the effect of reducing turnover by HK$488 million with a corresponding reduction in the cost of inventories sold.

Staff costs increased by 46.2% from HK$1,586 million in 2004 to HK$2,319 million in 2005, mainly due to the consolidation of Partner and the expansion of our business. Excluding Partner, staff costs decreased to HK$1,541 million. As a percentage of total turnover, staff costs fell from 10.7% in 2004 to 9.5% in 2005. The underlying decrease in staff costs was due to the continuing cost savings from the outsourcing of certain network, information technology, maintenance and call centre services in 2005 as well as improving economies of scale.

Depreciation and amortisation increased 40.1% from HK$3,117 million in 2004 to HK$4,367 million in 2005. Excluding Partner depreciation and amortisation expenses increased by only 3.2%. The increased depreciation was attributable to the continuing network roll out of our operations, which was partly offset by the decrease in depreciation made from the reassessment in useful life estimates for network assets within India from 9.67 years to 15 years. The increased amortisation mainly resulted from the amortisation of brand name and customer base and telecommunications licence as contributed by Partner.

The following table presents a breakdown of other operating expenses:

	Year ended 31 December		
	2004	2005	% Change
	(HK$ in millions)		
Cost of services provided	$4,989	$8,673	+73.8%
General administrative and distribution costs	1,857	2,087	+12.4%
Operating leases in respect of buildings and hire of plant and machinery	993	1,187	+19.5%
Impairment loss on fixed assets	142	–	-100.0%
Write-off of customer acquisition costs and retention costs	150	99	-34.0%
Others	782	1,210	+54.7%
Other operating expenses	$8,913	$13,256	+48.7%

Other operating expenses increased by 48.7% from HK$8,913 million in 2004 to HK$13,256 million in 2005. Excluding Partner, other operating expenses increased by 18.1%. The main component of other operating expenses was the cost of services provided, consisting of network costs and associated network operating costs, which increased by 73.8% from HK$4,989 million in 2004 to HK$8,673 million in 2005. The increase in the cost of services provided was mainly attributable to continuing growth in our customer base, which resulted in significant increases in interconnection, roaming and IDD charges, as well as the continuing network roll out, which resulted in increased rental fees for cell sites and leased lines.

The increase in other operating expenses was also partly due to the 12.4% increase in general administrative and distribution costs from HK$1,857 million in 2004 to HK$2,087 million in 2005, as well as the 19.5% increase in operating leases in respect of buildings and the hire of plant and machinery from HK$993 million in 2004 to HK$1,187 million in 2005. The increase in other operating expenses was offset by the write-off of customer acquisition and retention costs which decreased from HK$150 million in 2004 to HK$99 million in 2005.

As a percentage of our total turnover, other operating expenses decreased from 60.0% of turnover in 2004 to 54.4% in 2005. Excluding Partner, other operating expenses decreased to 59.3% of turnover in 2005.

Share of Results of Associated Companies

Share of results of associated companies, mainly contributed by Partner, decreased by 74.6% from HK$338 million in 2004 to HK$86 million in 2005, mainly due to the consolidation for the first time of the results of Partner beginning in April 2005.

Profit on Disposal of Investments and Others

During the year, the Group recorded a profit on disposal of investments and others of HK$71 million, comprising (i) the profit on disposal of an approximate 4% equity interest in Hutchison Essar Limited ("Hutchison Essar") of approximately HK$49 million as a result of the exercising of call options by a minority shareholder of Hutchison Essar; and (ii) negative goodwill of HK$27 million resulting from the transfer of a 0.57% equity interest in Hutchison Essar at nil consideration from Essar Teleholdings Limited, a minority shareholder of Hutchison Essar; and (iii) it was then offset in part by a dilution loss on our shareholding in Partner of approximately HK$5 million as a result of the exercise of share options by the option holders. In 2004, the Group, by way of a share placement, disposed of an approximate 26.5% equity interest in a subsidiary company, Hutchison Global Communications Holdings Limited, and recorded a gain on disposal of investment and others of approximately HK$1,300 million.

Operating Profit

As a result of the foregoing, the Group recorded an operating profit of HK$2,240 million in 2005 as compared to HK$1,494 million in 2004. Excluding the consolidation of Partner, the Group's operating profit in 2005 was HK$1,413 million, representing an increase of HK$1,219 million, if the one-time gain of HK$1,300 million is excluded from the Group's operating profit in 2004.

Interest and Other Finance Costs, Net

Net interest and other finance costs principally consists of interest and other finance costs relating to our debt, net of interest income received from bank deposits, as well as the fair value gain on derivative instruments. Net interest and other finance costs increased by 58.0% from HK$1,015 million in 2004 to HK$1,604 million in 2005, primarily due to the first time consolidation of the net debt of Partner as well as higher levels of debt used to finance the expansion of our operations.

Profit Before Taxation

We recorded a profit before taxation of HK$636 million in 2005, an increase of 32.8% from HK$479 million in 2004. Profit before taxation included profits on disposal of investments and others of HK$71 million in 2005 and HK$1,300 million in 2004. Excluding the profits on disposal of investments and others, our profit before taxation from continuing operations increased from a loss of HK$821 million in 2004 to a profit of HK$565 million in 2005.

Current and Deferred Taxation Charges

The Group's current taxation charge increased to HK$229 million in 2005 from HK$105 million in 2004. The current taxation charge was mainly attributable to increased taxable income as a result of the strong operating results in our India operations.

We recorded a net deferred taxation charge from continuing operations of HK$205 million in 2005, compared to a net deferred taxation charge of HK$80 million in 2004. The net deferred taxation charge related to each of our India and Hong Kong mobile operations as well as Partner, where we had historical losses. These carry-forward losses were applied to our tax positions as offsets.

Profit From Continuing Operations

Profit from continuing operations stood at HK$202 million in 2005, compared to HK$294 million in 2004. Excluding one-time gain, we had a loss from continuing operations in 2004 of HK$1,006 million.

Loss From Discontinued Operations

In May 2005, the Group entered into a contract to sell its mobile operations in Paraguay. The disposal was completed in July 2005. In this connection, the Group's mobile operations in Paraguay are presented as discontinued operations in accordance with HKFRS 5 "Non-current Assets held for Sale and Discontinued Operations". The loss from the discontinued operations in Paraguay amounted to HK$352 million in 2005 and HK$54 million in 2004.

Net Loss Attributable to Equity Holders

Loss attributable to equity holders of the Company in 2005 was HK$768 million, of which HK$416 million (or HK$0.09 loss per share) was from continuing operations, and HK$352 million (or HK$0.08 loss per share) was from discontinued operations. In 2004, the loss attributable to equity holders of the Company was HK$30 million, of which HK$24 million profit (or HK$0.01 earnings per share) was from continuing operations, and HK$54 million loss (or HK$0.01 loss per share) was from discontinued operations. Excluding the profit on disposal of investments and others, the loss from continuing operations in 2005 was HK$487 million compared to HK$1,276 million in 2004, a decrease of 61.8%.

Results of Operating Companies

Turnover

The following table presents a breakdown of turnover by our six business segments and the percentage of total turnover accounted for by each segment:

	Year ended 31 December			
	2004		2005	
	(HK$ in millions, except percentages)			
India	$7,093	47.8%	$9,996	41.0%
Israel	–	–	6,612	27.1%
Hong Kong mobile	3,714	25.0%	3,837	15.8%
Hong Kong fixed-line	1,870	12.6%	2,204	9.0%
Thailand	1,219	8.2%	1,045	4.3%
Others	949	6.4%	662	2.8%
Turnover	$14,845	100.0%	$24,356	100.0%

- **India operations.** Our India operations accounted for 41.0% of our total turnover in 2005, compared to 47.8% in 2004. Excluding Partner from our total turnover, our India operations would have represented 56.3% of total turnover. Turnover from our India operations increased by 40.9% from HK$7,093 million in 2004 to HK$9,996 million in 2005, primarily due to an increase in the total number of customers from approximately 7.2 million in 2004 to approximately 11.4 million in 2005, a growth of 59.4%. The growth was mainly driven by an increase in the prepaid customer base as thresholds to entry and monthly charges continued to fall. Over 90% of the growth in the year was in the prepaid segment which generally has a lower average revenue per user than the postpaid segment. At the end of 2005, 77.8% of our customer base was in the prepaid segment, up from 70.2% at the end of 2004.

- **Israel operations.** Israel accounted for 27.1% of our total turnover in 2005 having been consolidated as a subsidiary since April 2005. Had Partner been consolidated for the full year it would have contributed HK$8,750 million or 33.0% of total proforma turnover in 2005. As at 31 December 2005, Partner's customer base had risen to 2.5 million, an increase of 8.1% as compared to 2004, demonstrating Partner's ability to continue to grow its business in a highly competitive market.

- **Hong Kong mobile operations.** Our Hong Kong mobile operations accounted for 15.8% of our total turnover in 2005, compared to 25.0% in 2004. Excluding Partner from our total turnover, our Hong Kong mobile operations would have represented 21.6% of total turnover. Despite intense competition, turnover increased by 3.3% from HK$3,714 million in 2004 to HK$3,837 million in 2005, which was mainly driven by growth in our higher 3G customer base with higher average revenue per user, which was partially offset by a reduction in our 2G customer base. As at 31 December 2005, the mobile customer base in Hong Kong and Macau had risen to 2.0 million, an increase of 5.9% as compared to 2004. The increased turnover was also partly due to increased roaming revenues, demonstrating the ability of Hong Kong mobile to continue to grow the business in a highly competitive market.

- **Hong Kong fixed-line operations.** Our Hong Kong fixed-line operations accounted for 9.0% of our total turnover in 2005, compared to 12.6% in 2004. Excluding Partner from our total turnover, our Hong Kong fixed-line operations would have represented 12.4% of total turnover. Turnover from our Hong Kong fixed-line operations increased by 17.9% from HK$1,870 million in 2004 to HK$2,204 million in 2005 which was mainly driven by growth in international and local voice services, international and local data services, as well as residential broadband services. International voice revenues experienced a strong growth over the previous year, mainly driven by demand in both the wholesale and retail sectors, and partly driven by the launch of the IDD 0088 programme during the year. Despite keen competition and price pressures in the market, the turnover growth in international and local data services was achieved through additional penetration among the carrier, corporate and regional markets. Local voice and residential broadband customers also grew steadily during the year providing a stable source of revenue stream.

- **Thailand operations.** Our Thailand operations accounted for 4.3% of our total turnover in 2005, compared to 8.2% in 2004. Excluding Partner from our total turnover, our Thailand operation would have represented 5.9% of our total turnover. Turnover from our Thailand operations decreased by 14.3% from HK$1,219 million in 2004 to HK$1,045 million in 2005. This largely reflected a change in the customer mix as the business changed direction to focus on the prepaid market segment in 2005, which generally has a lower average revenue per user then the postpaid segment. Whilst the year end customer base increased by 19.0% to approximately 732,000, the prepaid base increased from 41.1% to 52.9% of the total customer base.

- **Other operations.** Turnover from other operations consisted of turnover from Sri Lanka, Ghana and the Group's non-telecommunications business. These operations collectively accounted for 2.8% of our turnover in 2005, compared to 6.4% in 2004. Total turnover decreased by 30.2% from HK$949 million in 2004 to HK$662 million in 2005 reflecting the change in the presentation of revenue in Vanda from gross to net basis.

Operating Profit

The following table presents a breakdown of operating profit (loss) before disposal of investments and others by business segment, the share of results of associated companies, profit on disposal of investments and others, as well as the percentage of total operating profit accounted for by each segment or line item:

	Year ended 31 December			
	2004		2005	
	(HK$ in millions, except percentages)			
India	$1,344	90.0%	$2,440	108.9%
Israel	–	–	832	37.1%
Hong Kong mobile	(524)	(35.1)%	(420)	(18.7)%
Hong Kong fixed-line	194	13.0%	78	3.5%
Thailand	(1,079)	(72.2)%	(544)	(24.3)%
Others	(79)	(5.3)%	(303)	(13.5)%
Operating (loss)/profit before disposal of investments and others	(144)	(9.6)%	2,083	93.0%
Share of results of associated companies	338	22.6%	86	3.8%
Profit on disposal of investments and others	1,300	87.0%	71	3.2%
Operating profit	$1,494	100.0%	$2,240	100.0%

The following table presents a breakdown of operating expenses by business segment and the percentage of operating expenses accounted for by each segment:

	Year ended 31 December			
	2004		2005	
	(HK$ in millions, except percentages)			
India	$5,749	38.3%	$7,556	33.9%
Israel	–	–	5,780	26.0%
Hong Kong mobile	4,238	28.3%	4,257	19.1%
Hong Kong fixed-line	1,676	11.2%	2,126	9.6%
Thailand	2,298	15.3%	1,589	7.1%
Others	1,028	6.9%	965	4.3%
Operating expenses	$14,989	100.0%	$22,273	100.0%

- **India operations.** Operating profit before disposal of investments and others from our India operations increased by 81.5% from HK$1,344 million in 2004 to HK$2,440 million in 2005 and our operating profit margin increased from 18.9% in 2004 to 24.4% in 2005. The increases mainly reflected the improved performance in the Uttar Pradesh (East), Rajasthan, Haryana, and Karnataka service areas. The improving margin reflects the better operating performance of the newer service areas.

  Operating expenses for the India business increased by 31.4%, which was less than the growth of turnover in the business.

- **Israel operations.** Operating profit before disposal of investments and others from Israel operations was HK$832 million, representing 39.9% of the Group's total operating profit before disposal of investments and others in 2005. Partner's results were consolidated for the nine months from April 2005 to December 2005. The Group equity accounted for Partner in the first three months of the year, recording a contribution to operating profit of HK$88 million in the first three months of 2005.

  During the year Partner was largely able to mitigate the reduction of inter carrier termination rates by reducing its costs and realigning tariffs. Partner has recorded increased amortisation of approximately HK$294 million resulting from the recognition of brand name and customer base at fair value of approximately HK$4,088 million.

- **Hong Kong mobile operations.** Our Hong Kong mobile operations recorded an operating loss before disposal of investments and others of HK$420 million in 2005, a 19.8% reduction from an operating loss of HK$524 million in 2004. The improvement was mainly due to staff cost savings from the outsourcing of certain network and information technology and call centre services, partially offsetting higher amortisation expenses from the continued growth of our 3G customer base which led to higher customer acquisition and retention costs.

- **Hong Kong fixed-line operations.** Our Hong Kong fixed-line operations recorded an operating profit of HK$78 million in 2005, a decrease of 59.8% from HK$194 million (excluding the one-off gain of HK$1,300 million) in 2004. The operating profit margin was 3.5% in 2005 compared to 10.4% in 2004. The decline in the operating profit and margin was the result of a change in the business mix as the Group recorded relative growth in the lower margin IDD business together with an increase in operating expenses including various one off expenses incurred in respect of the privatisation of HGCH during the year. Our operating expenses increased by 26.8% from HK$1,676 million in 2004 to HK$2,126 million in 2005. This increase in operating expenses was mainly attributable to the business expansion and generally consistent with increased turnover, which grew at a rate of 17.9% over 2004.

- **Thailand operations.** Operating loss from our Thailand operations decreased by 49.6% from HK$1,079 million in 2004 to HK$544 million in 2005, mainly attributable to a number of initiatives launched in 2005 including restructuring the organisation and outsourcing of network maintenance and IT operations. Operating expenses fell by 30.9% to HK$1,589 million reflecting the improved operating cost structure of the business and lower amortisation as our Thailand operations moved to expense customer acquisition costs in 2005.

- **Other operations.** Operating loss before disposal of investments and others from our other operations increased to HK$303 million in 2005 from HK$79 million in 2004. The loss was mainly due to the increase in operating expenses in Ghana and a full year of Corporate Office expenses.

  Our Vietnam and Indonesia operations did not generate any revenues in 2005 as they were still in the process of being rolled out.

Liquidity and Capital Resources

Capital Requirements

Our liquidity and capital requirements relate principally to the following:

- capital expenditures for the continuing build out and expansion of our networks in the markets where we operate, including purchases of fixed assets, licences, acquisitions of interests in existing third party telecommunications companies, as well as companies engaged in complementary or related businesses;

- costs and expenses relating to the operation of our businesses, including ongoing costs related to network operations, sales and distribution expenses and customer service; and

- payments of the principal of, and interest on, our debts.

Capital Expenditure

The following table sets forth our capital expenditure by business segment:

	Year ended 31 December	
	2004	2005
	(HK$ in millions)	
India	$2,463	$2,744
Israel	–	531
Hong Kong mobile	557	415
Hong Kong fixed-line	704	425
Thailand	876	282
Others	58	321
Total	$4,658	$4,718

Capital expenditure increased by 1.3% to HK$4,718 million in 2005 from HK$4,658 million in 2004 due to the first time inclusion of Israel, the increase in capital expenditure of India operations and expansion in our new markets in Indonesia and Vietnam. These increases were offset by decreases in capital expenditure in our Hong Kong mobile and fixed-line operations and our Thailand operations. The capital expenditure of India increased as we continued to invest to broaden our operations in our existing licence areas. The decrease in capital expenditure of the Hong Kong mobile operations mainly reflected the completion of the initial investment in building the basic infrastructure of a territory-wide 3G network. The decrease in capital expenditure in the Hong Kong fixed-line operations was due to the completion of its major infrastructure build out and lower prices. The decrease in capital expenditure of our Thailand operations was mainly due to the completion of the principal network build out and the implementation of cost saving programmes. The initial investments in Indonesia and Vietnam are included under "Others" and reflects initial roll out costs.

Our capital expenditure is expected to increase significantly in 2006, to an anticipated level of HK$13.5 billion to HK$14.5 billion. We expect our principal capital expenditure requirements for 2006 to include the following:

- Much of the investment is expected to be in India where we have earmarked nearly 70% of our anticipated 2006 capital expenditure. This will be used not only to expand existing operations, it will also be invested in the operations acquired through BPL. We will invest in these operations upon the completion of licence applications in the remaining areas where we presently do not operate and we plan to add more backbone capacity.
- We plan to invest approximately 20% in Indonesia and Vietnam during 2006 as we continue the network build out for those operations.
- The balance of the investment will go to the 3G network in Israel and maintenance expenditures across the rest of our businesses.

Outstanding Debt

The following table presents our outstanding bank loans and other interest-bearing borrowings and debentures as at 31 December 2004 and 2005:

	Total debt As of 31 December	
	2004	2005
	(HK$ in millions)	
Bank loans-current portion	$12,281	$7,677
Other loans-current portion	1,316	11
Notes and debentures-current portion	247	2
Long-term loans	3,582	19,002
Total debt [1]	$17,426	$26,692

(1) Excluding the HK$4 million interest-bearing loan from minority shareholders in one of our operating companies as at 31 December 2004.

We have financed our network build out and operating costs mainly through loans from commercial banks. As at 31 December 2004 and 2005, the ratio of our total debt to total assets was approximately 43% and 45% respectively.

Country	Fixed/ Floating Interest Rate	Maturity Date	Currency	Committed Facility (HK$ millions)	Current Portion (HK$ millions)	Long-term Portion (HK$ millions)	Total (HK$ millions)
India	Fixed	Aug 06 – Oct 09	INR	$1,270	$3	$1,244	$1,247
	Floating	Jan 06 – Nov 08	INR	3,990	1,170	2,813	3,983
	Floating	Oct 06	USD	624	623	–	623
Israel	Fixed	Apr 09	USD	26	7	19	26
	Floating	Jun 09 – Mar 12	ILS	4,515	51	4,464	4,515
Hong Kong mobile	Floating	May 08	HKD	6,000	–	4,128	4,128
Hong Kong fixed-line	Fixed	Jan 14	HKD	17	2	12	14
	Floating	Nov 08	HKD	–(1)	–	250	250
Thailand	Floating	Jun 06 – Jan 07	THB	6,525	4,382	1,039	5,421
	Floating	Jun 06 – Jan 07	JPY	1,597	1,278	317	1,595
	Floating	Mar 10	USD	175	38	132	170
Corporate and others	Floating	Nov 08	HKD	9,000(1)	–	1,782	1,782
	Fixed	Nov 06 – Dec 06	RMB	16	16	–	16
	Fixed	Apr 06	SGD	35	14	–	14
	Fixed	Mar 06 – Aug 06	MR	25	15	–	15
	Floating	Mar 06 – Nov 08	USD	120(1)	22	2,785	2,807
	Floating	Sep 06 – Mar 09	HKD	117	69	17	89
HTIL Total				$34,052	$7,690	$19,002	$26,692

(1) The HK$9 billion secured revolving loan facility is available for both Hong Kong fixed-line and Corporate.

The additional borrowings of our India operations in 2005 were mainly to finance the expansion of its network. In addition to the borrowings of Hutchison Essar, there were external borrowings of HK$742 miliion by intermediate holding companies which have been incurred to fund the Group's investment in India.

The increase in borrowings of our Hong Kong fixed-line operations in 2005 was mainly for the funding of working capital.

The increased borrowings of our Thailand operations in 2005 were to meet finance charges, investments and working capital requirements.

The outstanding bank loans and other interest-bearing third-party borrowings, as at 31 December 2005 by segment, as well as information regarding maturities and interest expenses for the year ended 31 December 2005 in respect of such debt, are as follows:

	Maturity			Year ended 31 December 2005
	Short-term	Long-term	Total debt	Interest expense
	(HK$ in millions)			
India	$1,796	$4,057	$5,853	$342
Israel	58	4,483	4,541	429
Hong Kong mobile	–	4,128	4,128	144
Hong Kong fixed-line	2	262	264	1
Thailand	5,698	1,488	7,186	299
Others	136	4,584	4,720	99
Total	$7,690	$19,002	$26,692	$1,314

On 31 March 2005, Partner completed an offering of NIS2 billion (HK$3,380 million) unsecured CPI linked notes. The principal amount of the notes is payable in 12 quarterly installments, beginning 30 June 2009 until 31 March 2012, and bears interest at the rate of 4.25% per annum. In April 2005, which was subsequently amended in May 2005, Partner entered into a new US$150 million (HK$1,163 million) five-year bank credit facility. This new facility is secured by a first ranking floating charge on Partner's assets. In August 2005, Partner redeemed its outstanding US$175 million (HK$1,356 million) 13% Senior Subordinated Notes, due in 2010. The redemption was financed by the new bank facility and the CPI linked notes.

In May 2005, Hutchison Telephone Company Limited in Hong Kong entered into a HK$6 billion three-year senior secured revolving credit facility agreement with a group of international commercial banks, to refinance existing borrowings for the Hong Kong mobile business. The facility contains certain covenants and prepayment events including ownership undertakings in the Hong Kong mobile business. The facility is secured by way of fixed and floating charges over the assets of, as well as charges over the issued share capital of, the Hong Kong mobile business. As at 31 December 2005, HK$4,150 million was outstanding under this facility.

In May and July 2005, the Group's Indian operations concluded two two-year rupee loan facilities, each of INR2,200 million (HK$378 million). At 31 December 2005, these facilities were fully drawn. In October 2005, the Group's Indian operations concluded two three-year credit facilities with an aggregate of INR19,450 million (HK$3,340 million). To conclude the refinancing plan for India operations, in November 2005, the Group's Indian operations entered into a foreign currency loan facility of US$140 million (HK$1,085 million) with a group of international banks. The facility shares the same security package as the INR4,400 million (HK$756 million) Rupee loan facilities. These facilities are secured by first charges over all assets of the Indian operating companies.

In August 2005, one of the Group's Thailand operations entered into a new THB3,900 million (HK$739 million) revolving credit facility with an international commercial bank. This facility is guaranteed by the Company and will expire in August 2006. In December 2005, the Group's Thailand operations successfully arranged two one-year Baht denominated credit facilities: one THB9,500 million (HK$1,799 million) revolving and term loan facility and one THB8,000 million (HK$1,515 million) term loan facility. These facilities were used to refinance existing maturing facilities and are guaranteed by HWL.

In November 2005, the Company, HTI (BVI) Finance Limited ("HTIF"), and Hutchison Global Communications Limited ("HGC") entered into a HK$9 billion secured revolving loan facility with three-year term with a group of syndicated banks. The facility is secured by way of a fixed and floating debenture over the assets of the borrowers and HCL Network Partnership, guarantees from various intermediate holding companies of the Group's operations and charges over the entire issued share capital of HTIF and HGC. At 31 December 2005, HK$4,858 million was outstanding under this facility.

As at 31 December 2005, total borrowings of HK$7,488 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 2005, fixed assets and current assets of certain subsidiary companies amounting to HK$11,520 million and HK$6,756 million, respectively, were used as collateral for certain of the borrowings. The current portion of bank and other loans, notes and debentures of the Group is secured to the extent of HK$868 million (2004 – HK$3,830 million). The long-term portion of bank and other loans and debentures of the Group is secured to the extent of HK$16,748 million (2004 – HK$1 million).

Contractual Obligations

The following table sets forth selected information regarding our contractual obligations to make future payments as at 31 December 2005:

		Payments due within		
Contractual obligations	**Total**	**1 year**	**1-5 years**	**After 5 years**
			(HK$ in millions)	
Purchase obligations	$4,398	$4,398	$–	$–
Operating lease obligations	2,548	735	946	867
Loans [(1)]	26,692	7,690	17,577	1,425
Licence fees liabilities	1,386	161	386	839
Total contractual obligations	$35,024	$12,984	$18,909	$3,131

(1) Including bank loans and other interest-bearing third-party borrowings.

Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash flow from our operating activities and borrowings from banks.

As at 31 December 2005, we had net current liabilities of HK$5,328 million comprising a current portion of bank loans and other loans equal to HK$7,690 million and other net current assets of HK$2,362 million. As at 31 December 2004, we had net current liabilities of HK$14,373 million, comprising a current portion of bank loans and other loans equal to HK$13,844 million and other net current liabilities of HK$529 million. The decrease in net current liabilities in 2005 compared to 2004 was attributable to a decrease in short-term borrowings of HK$6,154 million, mainly due to the refinancing of a number of short-term bank loans with long-term borrowings together with an increase in short-term borrowings by our Thailand operations and the first time consolidation of Israel operations, as well as an increase in other net current assets by HK$2,891 million.

The following table sets out the major inflows/(outflows) of the Group's cash flows:

	2004 HK$ millions	2005 HK$ millions
Cash flows from operating activities		
Profit before taxation	$479	$636
Adjustments for		
- Interest and other finance costs, net	1,015	1,604
- Non-cash items	3,417	4,582
- Share of results of associates	(338)	(86)
- Profit on disposal of investments and others	(1,300)	(71)
- Changes in working capital	(58)	524
Cash generated from continuing operations	$3,215	$7,189
Cash used in discontinued operations	(21)	–
Cash generated from operations	$3,194	$7,189
Net interest and other finance costs and taxes paid	(950)	(1,912)
Net cash generated from operating activities	$2,244	$5,277
Cash flows from investing activities		
Net purchases of fixed assets	(5,104)	(4,030)
Addition to telecommunications licences, customer acquisition and retention costs, and long-term deposits	(963)	(987)
Prepayment for acquisition of subsidiary companies	–	(4,011)
Purchases of subsidiaries and additional investment in certain subsidiaries	69	(1,403)
Proceeds on disposal of subsidiaries	–	193
Proceeds on disposal of partial interest in a subsidiary	1,578	476
Net cash used in investing activities	$(4,420)	$(9,762)
Cash flows from financing activities		
Net cash flows from financing activities and changes in restricted cash	3,798	4,577
Increase in amounts due from related companies	(1,513)	–
Equity contribution net of dividend paid to minority shareholders	–	242
Net cash provided by financing activities	$2,285	$4,819

Our net cash inflows from operating activities in 2005 amounted to HK$5,277 million, compared to HK$2,244 million in 2004. The increase in net cash inflows from operating activities was mainly due to improved operating cashflow as well as to a working capital inflow of HK$524 million in 2005, compared to a working capital outflow of HK$58 million in 2004. The working capital inflow in 2005 consisted primarily of an increase in trade and other receivables of HK$1,099 million and was offset by an increase in trade and other payables of HK$1,581 million. In comparison, the working capital outflow in 2004 consisted primarily of an increase in trade and other receivables of HK$1,081 million and was offset by an increase in trade and other payables of HK$970 million. Our trade receivables increased from HK$1,719 million in 2004 to HK$3,265 million as of 31 December 2005. The increase was primarily due to increases in turnover resulting from growth in our customer base as well as the consolidation of Partner during the year.

Our net cash outflows from investing activities amounted to HK$9,762 million in 2005, compared to HK$4,420 million in 2004. The net cash outflows from investing activities consisted mainly of capital expenditures on network build out of HK$4 billion advanced payments made in connection with the acquisition of BPL Cellular Limited and BPL Mobile Cellular Limited in India of approximately HK$4 billion. In 2004, we had a profit on disposal of partial interest related to the placement of HGCH, which accounted for a HK$1,578 million inflow of our cash flows from investing activities. In comparison, we had a cash inflow of approximately HK$476 million from the disposal of partial interest in certain subsidiaries as a result of the option exercised by certain minority shareholders.

Our net cash inflows from financing activities amounted to HK$4,819 million in 2005, compared to HK$2,285 million in 2004. The increase mainly reflected a net increase in loans in the amount of HK$4,571 million in 2005 as compared to HK$4,048 million in 2004, primarily to fund network build out and operations by our operating companies as well as the first time inclusion of the debt from Partner. In 2004 there was an increase in amounts due from related companies of HK$1,513 million (Nil – 2005).

Off-Balance Sheet Arrangements

In addition to the contractual obligations discussed above, we have commitments that could require us to make material payments in the future. These commitments are not included in our consolidated balance sheet as of 31 December 2004 and 31 December 2005.

As of 31 December 2005, we had commitments of HK$4,398 million (2004 – HK$2,203 million) in respect of purchase obligations, HK$2,548 million (2004 – HK$1,713 million) in respect of operating lease obligations and contingent liabilities of HK$887 million (2004 – HK$564 million) in respect of performance guarantees.

In addition, under the shareholder arrangements with respect to the India entities through which we hold our business interests in India existing as at 31 December 2005, we had put/call options in place, which, if exercised by the relevant counter-party, could have required us to make material payments to purchase additional interests in these India entities. Pursuant to the relevant shareholders' arrangements, the exercise prices of these options would have been at fair market value as determined by agreements between us and the India shareholders of the relevant holding entity or, failing such agreements, by an investment bank. These shareholder arrangements were eliminated in March 2006.

We are required under the relevant shareholders' agreements relating to our interests in the Thai operating companies to provide funding for operating expenses and capital expenditures of the operating companies or the intermediary holding companies through which we hold our interests in these operating companies. To date, we have met these funding obligations primarily through procuring guarantees for third-party loans to these companies, but we may in the future fund these operating expenses and capital expenditures directly.

Market Risk Hedging and Derivatives

The Group is exposed to market risk from changes in interest rates and currency exchange rates. Interest rate risk exists principally with respect to the Group's financial liabilities bearing interest at floating rates. Interest rate risk also exists with respect to the fair value of fixed rate financial assets and liabilities. Exchange rate risk exists with respect to the Group's financial assets and liabilities denominated in currencies other than Hong Kong dollars. The Group is also subject to exchange rate risks with respect to its operations and investments outside Hong Kong. The Group manages these risks by a variety of methods, including the use of a number of derivative financial instruments such as cross currency and interest rate swap contracts. All transactions in derivative financial instruments are undertaken for risk management purposes only. No instruments are held by the Group for trading or speculative purposes.

The Group enters into forward exchange contracts when it is deemed appropriate as hedges against its foreign currency exposures. Foreign currency swap agreements are used to manage exchange rate exposures mainly relating to certain debt instruments denominated in foreign currency. Foreign currency denominated borrowings are translated at the contracted swap rates where the Group has entered into currency swap arrangements.

The Group also enters into interest rate swaps to manage the fixed and floating interest rate mix of the Group's total debt portfolio and reduce the impact of fluctuating interest rates on its short-term and long-term debts. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the hedged debts is adjusted to include the payments made or received under the interest rate swaps.

Our financial assets and liabilities as of 31 December 2004 and 31 December 2005 consisted mainly of non-derivative assets and liabilities, which were presented at their fair values. The fair values of our fixed-rate and floating-rate borrowings approximate their fair values since they bear interest at rates close to the prevailing market rates.

The following tables summarise the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as at 31 December 2005 that are sensitive to exchange rates or interest rates. Data presented below includes bank loans and other third-party borrowings.

	31 December 2005						
	Maturities					31 December 2005	
	2006	2007	2008	2009	Thereafter	Total	Fair Value
	(HK$ in millions except rates)						
Local Currency:							
Fixed rate	$2	$1	$2	$2	$7	$14	$14
Average weighted rate(1)	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Variable rate	$69	–	$6,160	$17	–	$6,246	$6,246
Average weighted rate(1)	4.59%	–	4.96%	5.99%	–	4.96%	4.96%
Sub-total	$71	$1	$6,162	$19	$7	$6,260	$6,260
Foreign currency:							
Thai Baht:							
Variable rate(2)	$5,698	$1,393	$38	$38	$19	$7,186	$7,186
Average weighted rate(1)	5.30%	5.64%	4.78%	4.78%	4.78%	5.36%	5.36%
Sub-total	$5,698	$1,393	$38	$38	$19	$7,186	$7,186
Indian Rupee:							
Fixed rate	$3	$2	$1,241	$1	–	$1,247	$1,247
Average weighted rate(1)	11.26%	29.46%	7.03%	28.83%	–	7.10%	7.10%
Variable rate(3)	$1,793	–	$2,813	–	–	$4,606	$4,606
Average weighted rate(1)	6.57%	–	7.03%	–	–	6.85%	6.85%
Sub-total	$1,796	$2	$4,054	$1	–	$5,853	$5,853
Israel Shekels:							
Variable rate	$51	$382	$376	$1,152	$2,554	$4,515	$4,515
Average weighted rate(1)	8.17%	6.81%	6.75%	6.63%	6.65%	6.68%	6.68%
Sub-total	$51	$382	$376	$1,152	$2,554	$4,515	$4,515
US dollars:							
Fixed rate	$7	$7	$8	$4	–	$26	$26
Average weighted rate	7.25%	7.25%	7.25%	7.25%	–	7.25%	7.25%
Variable rate	$22	$4	$2,781	–	–	$2,807	$2,807
Average weighted rate(1)	7.69%	6.24%	5.24%	–	–	5.26%	5.26%
Sub-total	$29	$11	$2,789	$4	–	$2,833	$2,833
Others:							
Fixed rate	$45	–	–	–	–	$45	$45
Average weighted rate(1)	4.48%	–	–	–	–	4.48%	4.48%
Sub-total	$45	–	–	–	–	$45	$45
Total	$7,690	$1,789	$13,419	$1,214	$2,580	$26,692	$26,692

(1) Weighted average rates of the portfolio at the year end.

(2) Included Japanese Yen borrowings of HK$1,595 million and US dollar borrowings of HK$170 million which were swapped into Thai Baht borrowings as at 31 December 2005.

(3) Included US dollar borrowings of HK$623 million which were swapped into Indian Rupee borrowings as at 31 December 2005.

Reconciliation to US GAAP

Our consolidated financial statements are prepared in accordance with HKFRS, which differ in various material aspects from US GAAP. These material differences, as they apply to our consolidated financial statements can be read in the "Information for US Investors" section.

The Group's US GAAP financial statements for 2003 and 2004 have been restated as described in the "Information for US Investors" section (which includes the restated US GAAP financial statements for 2004) to correct certain items. These restatements were the result of the Group: (i) revising its recording of the translation of its licences into its functional currency using period end rates rather than historical exchange rates; (ii) revising its recording of the fair value of derivatives as of 31 December 2003 and 2004; (iii) not recording deferred tax liabilities applicable to acquired licences in connection with acquisitions in India made during 2000; and (iv) revising its recording of the effect attributable to certain tax holidays for its subsidiaries in India.

The following table sets forth a comparison of our net loss attributable to shareholders and shareholders' funds in accordance with HKFRS and US GAAP for the years indicated:

	As of or for the year ended 31 December	
	2004 (Restated)	**2005**
	(HK$ in millions)	
Net loss attributable to shareholders		
HKFRS	$(30)	**$(768)**
US GAAP	(232)	**(915)**
Shareholders' funds		
HKFRS	13,830	**16,170**
US GAAP	12,709	**13,680**