1. General Information

Hutchison Telecommunications International Limited (the "Company") was incorporated in the Cayman Islands on 17 March 2004 as a company with limited liability. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, British West Indies. The Company is listed on both the Main Board of the Hong Kong Stock Exchange Limited and the New York Stock Exchange in the United States.

The Company and its subsidiary companies (together the "Group") are engaged in mobile telecommunications and related businesses in Hong Kong and Macau, India, Israel, Thailand, Indonesia, Vietnam, Sri Lanka and Ghana. The Group also has a fixed-line telecommunications business in Hong Kong.

These accounts have been approved for issuance by the Board of Directors on 9 March 2006.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "Revised HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with Revised HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

As disclosed in 2004 annual accounts, with effect from 1 January 2004, the Group had elected to early adopt HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets". The effect of the adoption of the above Revised HKFRS had been disclosed in the 2004 annual accounts. In 2005, the Group adopted the new/revised standards of Revised HKFRS below, which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets held for Sale and Discontinued Operations
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities

The adoption of new/revised HKASs 1, 2, 7, 10, 16, 23, 24, 27, 28, 31, 33 and HKAS-Int 12 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 10, 16, 23, 27, 28, 31, 33 and HKAS-Int 12 had no material effect on the Group's policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The Group owns the rights to use and operate specified spectrums in some jurisdictions over a certain period of time through annual minimum fees plus a variable portion depending on the future revenues from the services. As part of the process for adoption of Revised HKFRS and under the latest interpretation of Revised HKFRS, the Group has changed its policy with respect to the recognition and measurement of these telecommunications spectrum licences.

Previously licence fees payments made prior to commercial launch of services were recorded at cost 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 service were recognised in the profit and loss account on a straight-line basis over the period of the relevant licence. Variable periodic payments were recognised in the profit and loss account as incurred. Under the latest interpretation of HKAS 38, the right to use telecommunication spectrum represents a right to provide a service rather than a right to use a specified asset, and is therefore scoped out of HKAS 17 and accounted for as an intangible asset. In order to measure the intangible asset, HKAS 32 is applied for recognition of the obligation to pay for the licence as a contractual obligation to deliver cash and hence should be considered a financial liability and be initially measured at its fair value. Fixed annual fees to be paid over the licence periods are discounted which, together with certain other direct costs incurred prior to the date the asset is ready for its intended use, are capitalised. Capitalised licence fees are amortised from the date the asset is ready for its intended use until the expiration of the licence. Interest is accreted on the fixed annual fees and charged to interest expense. Variable licence fees are recognised as period costs.

In February 2005, the HKICPA issued HKAS 19 Amendment "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" which is effective for accounting periods beginning on or after 1 January 2006. The HKAS 19 Amendment allows the option of recognising actuarial gains and losses in full in the year in which they occur, outside profit or loss, in the statement of recognised income and expense. With effect from 1 January 2005, the Group has early adopted HKAS 19 Amendment so as to fully reflect the actuarial gains and losses in the Group's balance sheet and reserves as of 1 January 2005. The adoption of HKAS 19 Amendment represents a change in accounting policy for pension plans and has been applied retrospectively from the first year of application of Statement of Standard Accounting Practice ("SSAP") 34 "Employee Benefits" in 1 January 2002. In prior years, 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 were recognised over the average remaining servicing lives of employees. In accordance with the transitional provisions of SSAP 34, transitional liabilities at 1 January 2002 were recognised as an expense on a straight-line basis over a period of less than five years from 1 January 2002.

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

The adoption of HKAS 21 has resulted in a change in the accounting policy relating to foreign currency translation. Goodwill and other fair value adjustment are translated at closing rate for acquisitions take place after 1 January 2005 and treated as part of the foreign operations' assets and liabilities.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. The Group did not meet the restrictive documentation, designation and effectiveness assessments required under HKAS 39 for its cross currency and interest rate swap contracts to qualify for hedge accounting. As a result, the changes in fair value of the currency and interest rate swap contracts are recognised in the profit and loss account.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective 1 January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 that had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets held for sale. The non-current assets held for sale were previously neither classified nor presented as current assets or liabilities. The adoption of HKFRS 5 does not impact the prior year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of fixed assets acquired in an exchange of assets transaction is accounted for at fair value prospectively;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005;
- HKFRS 5 – prospectively from 1 January 2005 in accordance with the standard's provisions; and
- HKAS 21 – prospectively for translation of goodwill and other fair value adjustments arising from business combination subsequent to 1 January 2005 in accordance with the standard's provisions.

The Company has re-assessed the correction of an amount of deferred tax assets relating to its subsidiaries in India under HKAS 8, which was previously recorded in the December 2004 financial statements and has concluded that a portion should be recorded in 2003 or earlier periods.

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

The effect of the aforementioned changes on profit or loss, earnings/(loss) per share, the opening balance of shareholders' funds and various balance sheet items is summarised below:

(i) Effect on the profit or loss and earnings/(loss) per share for the year ended 31 December 2004

	HKAS 39 HK$ millions	HKFRS 2 HK$ millions	HKAS 17 and HKAS 32 HK$ millions	HKAS 8 HK$ millions	Total HK$ millions
Year ended 31 December 2004:					
Increase in staff costs	-	6	-	-	6
Increase in depreciation and amortisation	-	-	91	-	91
Decrease in other operating expenses	-	-	(93)	-	(93)
Decrease in share of results of associated companies	-	15	-	-	15
Increase in interest and other finance costs	-	-	147	-	147
Decrease in deferred taxation charge	-	-	-	(90)	(90)
Increase/(decrease) in profit for the year	-	(21)	(145)	90	(76)
Attributable to:					
Equity holders of the Company	-	(18)	(130)	46	(102)
Minority interest	-	(3)	(15)	44	26
	-	(21)	(145)	90	(76)
Earnings/(loss) per share - basic	-	(HK$0.00)	(HK$0.03)	HK$0.01	(HK$0.02)
Earnings/(loss) per share - diluted	-	(HK$0.00)	(HK$0.03)	HK$0.01	(HK$0.02)

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

(ii) Effect on the profit or loss and earnings/(loss) per share for the year ended 31 December 2005

	HKAS 39 HK$ millions	HKFRS 2 HK$ millions	HKAS 17 and HKAS 32 HK$ millions	HKAS 8 HK$ millions	Total HK$ millions
Year ended 31 December 2005:					
Increase in staff costs	-	109	-	-	109
Increase in depreciation and amortisation	-	-	67	-	67
Decrease in other operating expenses	-	-	(131)	-	(131)
Decrease in share of results of associated companies	-	6	-	-	6
Increase/(decrease) in interest and other finance costs	(9)	-	148	-	139
Increase in deferred taxation charge	2	-	-	-	2
Decrease/(increase) in loss for the year	7	(115)	(84)	-	(192)
Attributable to:					
Equity holders of the Company	5	(90)	(69)	-	(154)
Minority interest	2	(25)	(15)	-	(38)
	7	(115)	(84)	-	(192)
Earnings/(loss) per share - basic	HK$0.00	(HK$0.02)	(HK$0.01)	-	(HK$0.03)
Earnings/(loss) per share - diluted	HK$0.00	(HK$0.02)	(HK$0.01)	-	(HK$0.03)

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

(iii) Cumulative effect on various balance sheet items and shareholders' funds as at 31 December 2004

	HKAS 19 Amendment HK$ millions	HKAS 21 HK$ millions	HKAS 39 HK$ millions	HKFRS 2 HK$ millions	HKAS 17 and HKAS 32 HK$ millions	HKAS 8 HK$ millions	Total HK$ millions
Net assets:							
Increase in telecommunications licences	-	-	-	-	922	-	922
Increase in other current liabilities	(82)	-	-	-	(108)	-	(190)
Increase in other long-term liabilities	-	-	-	-	(1,221)	-	(1,221)
	(82)	-	-	-	(407)	-	(489)
Shareholders' funds:							
Cumulative impact of changes in accounting policies as at 1 January 2004	(31)	-	-	-	(262)	(48)	(341)
Impact of changes in accounting policies on the year ended 31 December 2004							
Profit attributable to shareholders	-	-	-	(18)	(130)	46	(102)
Exchange reserve	-	-	-	-	-	2	2
Other reserves and accumulated losses	(34)	-	-	18	-	-	(16)
Cumulative impact of changes in accounting policies as at 31 December 2004	(65)	-	-	-	(392)	-	(457)
Minority interest:							
Cumulative impact of changes in accounting policies as at 31 December 2004	(17)	-	-	-	(15)	-	(32)
Total equity:							
Cumulative impact of changes in accounting policies as at 31 December 2004	(82)	-	-	-	(407)	-	(489)

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

(iv) Cumulative effect on various balance sheet items and shareholders' funds as at 31 December 2005

	HKAS 19 Amendment HK$ millions	HKAS 21 HK$ millions	HKAS 39 HK$ millions	HKFRS 2 HK$ millions	HKAS 17 and HKAS 32 HK$ millions	HKAS 8 HK$ millions	Total HK$ millions
Net assets:							
Increase in other current assets	-	-	9	-	-	-	9
Increase in telecommunications licences	-	-	-	-	823	-	823
Decrease in goodwill	-	(154)	-	-	-	-	(154)
Decrease in bank loans	-	-	72	-	-	-	72
Increase in other current liabilities	(35)	-	(116)	-	(117)	-	(268)
Decrease in long-term loans	-	-	26	-	-	-	26
Increase in other long-term liabilities	-	-	-	-	(1,179)	-	(1,179)
	(35)	(154)	(9)	-	(473)	-	(671)
Shareholders' funds:							
Cumulative impact of changes in accounting policies as at 31 December 2004	(65)	-	-	-	(392)	-	(457)
Changes in accounting policy in respect of financial instruments	-	-	20	-	-	-	20
Cumulative impact of changes in accounting policies as at 1 January 2005	(65)	-	20	-	(392)	-	(437)
Profit attributable to shareholders	-	-	5	(90)	(69)	-	(154)
Exchange reserve	-	(154)	-	-	18	-	(136)
Other reserves and accumulated losses	42	-	-	90	-	-	132
Cumulative impact of changes in accounting policies as at 31 December 2005	(23)	(154)	25	-	(443)	-	(595)
Minority interest:							
Cumulative impact of changes in accounting policies as at 31 December 2005	(12)	-	(34)	-	(30)	-	(76)
Total equity:							
Cumulative impact of changes in accounting policies as at 31 December 2005	(35)	(154)	(9)	-	(473)	-	(671)

2. Principal Accounting Policies (continued)

(a) Basis of preparation (continued)

No early adoption of the following new standards and interpretations that have been issued but not effective for the year ended 31 December 2005:

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Right to interests arising from decommissioning, restoration and environment rehabilitation
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of these new HKFRS is not expected to result in substantial changes to the Group's accounting policies.

At 31 December 2005, the Group had net current liabilities of HK$5,328 million. 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, including the Group's HK$9 billion credit facility.

(b) Basis of consolidation

The consolidated accounts made up to 31 December include the accounts of the Company and all of its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies on the basis set out in Note 2(e) below. Results of subsidiary and associated companies acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December or up to the dates of disposal as the case may be.

The purchase method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Principal Accounting Policies (continued)

(c) 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(b) 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 2005 are set forth on pages 174 to 175.

(d) Minority interest

Minority interest at the balance sheet date, being the portion of the net assets of subsidiary companies attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiary companies, are presented in the consolidated balance sheet separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary company, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary company subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(e) 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.

(f) Business Co-operation Contract

The Group obtained an investment licence from the Ministry of Planning and Investment of Vietnam to engage in a business co-operation under a Business Co-operation Contract ("BCC") with Hanoi Telecommunication Joint Stock Company to build, operate and develop a mobile telecommunications network in Vietnam. By virtue of the financing arrangements of the BCC, the Group bears the majority of the economic risks of the BCC and thus currently have accounted for the BCC as a subsidiary company of the Group. The Group has recognised in its financial statements the assets that it controls and the liabilities that it incurs, as well as the expenses that it incurs and its share of income, if any, from the BCC.

2. Principal Accounting Policies (continued)

(g) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustments).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Principal Accounting Policies (continued)

(h) 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	4 - 5 years
Office furniture & equipment and computer equipment	3 - 7 years
Leasehold improvements	Over the unexpired period of the lease or 7 years, whichever is the shorter

During the year ended 31 December 2005, the Directors evaluated the useful lives for mobile telecommunications network assets within India and concluded that the useful lives of these network assets should be extended from 9.67 years to 15 years. The Directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively from 1 January 2005 (See Note 4(a)(i) for details).

Subsequent costs on fixed assets are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

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

The assets' residual values and useful lives are reviewed, and adjusted if applicable, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(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 a straight-line basis.

(j) Telecommunications licences

The Group owns the rights to use and operate specified spectrums in some jurisdictions over a certain period of time through annual minimum fees plus a variable portion depending on the future revenues from the services. Licence fees payments, the discounted value of the fixed annual fees to be paid over the licence period, and certain other direct costs incurred prior to the date the asset is ready for its intended use are capitalised. Capitalised licence fees are amortised from the date the asset is ready for its intended use until the expiration of the licence.

Interest is accreted on the fixed annual fees and charged to interest expense. Variable licence fees are recognised as period costs.

2. 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 consolidated balance sheet as a separate asset or, as applicable, included within investment in associated company. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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. The Group allocates goodwill to each business segment in each country in which they operate.

(l) Other non-current assets

(i) Customer acquisition and retention costs

Costs to acquire or retain telecommunications customers pursuant to a contract with early termination penalties are capitalised and amortised over the minimum enforceable contractual period, which is generally a period of 12 months. In the event that a customer churns off the network within the minimum enforceable contractual period, any unamortised customer acquisition or retention costs are written off in the period in which the customer churns. As of 31 December 2005, this policy is only applicable to the Group's telecommunications companies in Hong Kong.

Costs to acquire prepaid telecommunications customers are expensed in the period incurred.

(ii) Prepaid capacity and maintenance

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.

(iii) Brand name and customer base

Brand name and customer base that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses. Amortisation of brand name and customer base is calculated on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Brand name	17 years
Customer base	9 years

(m) Asset impairment

Assets that have an indefinite useful life are not subject to amortisation, and are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to 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).

2. Principal Accounting Policies (continued)

(n) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

A financial asset is designated at fair value through profit or loss at inception if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current if they are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that financial assets, loans, receivables, or a group of financial assets is impaired.

(o) 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.

(p) Restricted cash

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

(q) 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.

(r) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2. Principal Accounting Policies (continued)

(s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(u) 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 company 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.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Contingent liabilities

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.

2. Principal Accounting Policies (continued)

(x) Employee benefits

(i) Pension plans

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

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the year in which they occur in the statement of recognised income and expense.

Past-service costs are recognised immediately in the profit and loss account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Group's contributions to the defined contribution plans are charged to the 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. The Group has no further payment obligations once the contributions have been paid.

(ii) Share-based payments

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably committed itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. Principal Accounting Policies (continued)

(y) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(z) 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 the 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 prepaid recharges are recognised upon customer's usage 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.

(aa) Interest income

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

(ab) Dilution of interest in subsidiary companies or associated companies

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

(ac) Increase in proportionate share of subsidiary companies

The increase in the Group's proportionate share of the underlying equity of a subsidiary company is accounted for using the carrying value of the subsidiary company's assets and liabilities. The difference between the amount paid for the additional equity interest of a subsidiary company and the increase in the share of the carrying values of the subsidiary company's assets and liabilities is recognised as goodwill or negative goodwill in accordance with note 2(b) above.

3. Financial Risk Management

(a) Financial risk factors

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 to manage 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 manages its fair value and interest rate risks by entering 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.

(b) Accounting for derivative financial instruments and hedging activities

Derivatives that do not qualify for hedge accounting under HKAS 39 are accounted for with the changes in fair value being recognised in the profit and loss account. In prior years, the Group recorded derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the profit and loss account to match the underlying hedged transactions where relevant.

The Group's borrowings and debt instruments are initially measured at fair value, net of transaction costs, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings and debt instruments is recognised over the period of the borrowings using effective interest method. In prior years, borrowings and debt instruments were stated at the nominal principal balance and the initial transaction costs incurred were capitalised and included under other non-current assets.

(c) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical Accounting Estimate and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 3, 20, 27(b) and 28 contain information about the assumption and their risk factors relating to financial instruments, goodwill impairment, defined benefits obligations, fair value of share options granted. Other key sources of estimation uncertainty are described below.

(i) Estimated useful life for telecommunications and network equipment

The Group has substantial investments in the mobile and fixed-line telecommunications and network equipment. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

During the year ended 31 December 2005, the Directors evaluated the useful lives for mobile telecommunications network assets within India, through careful consideration with regards to expected usage, expected wear-and-tear, potential for technical obsolescence and any future legal limitations to usage of the assets. Further, the Directors carefully considered the historical experience with similar assets in determining the estimated useful life, as well as taking into account anticipated technological or other changes. As a result of this reassessment, the Directors concluded that the useful lives of these network assets should be extended from 9.67 years to 15 years. The Directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively from 1 January 2005. The effect of this change in accounting estimate is to decrease the depreciation charge for the year ended 31 December 2005 by HK$360 million, to increase the deferred tax charge for the year ended 31 December 2005 by HK$248 million, and to decrease the loss attributable to equity holders of the Company for the year ended 31 December 2005 by HK$60 million. For the years ended 31 December 2006 and 2007, annual depreciation expense of these network assets will be decreased by HK$343 million and HK$298 million respectively.

(ii) Income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Asset impairment

Management judgment is required in the area of asset impairment, including goodwill, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the asset using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could significantly affect the Group's reported financial condition and results of operations.

4. Critical Accounting Estimate and Judgements (continued)

(b) Critical judgements in applying the Company's accounting policies

(i) Deferred taxation

Management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the recognition criteria for deferred tax assets recorded in relation to cumulative tax loss carry forwards. The assumptions regarding future profitability and the anticipated timing of utilising the tax holiday period available to the India businesses require significant judgment, and significant changes in these assumptions from period to period may have a material impact on the Group's reported financial condition and results of operations. As of 31 December 2005, we had recognised HK$918 million (2004 – HK$844 million) in deferred tax assets.

5. Business Combinations

(a) Deemed acquisition of Partner Communications Company Limited ("Partner")

On 20 April 2005, the Group's shareholding in Partner increased from 42.9% to 52.2% following the completion of a buyback of shares by Partner from certain of its shareholders ("Partner's Share Buyback"). The Group is deemed to have acquired an additional 9.3% of the issued share capital of Partner and resulted in the consolidation of Partner as a subsidiary company for the first time.

Details of net assets acquired and goodwill are as follows:

	HK$ millions
Purchase consideration	–
Investment held prior to the deemed acquisition	1,757
Fair value changes arising from business combination	1,233
	2,990
Fair value of net assets acquired – shown as below	2,105
Goodwill (Note 20)	885

Partner contributed turnover of HK$6,612 million and profit for the year of HK$275 million to the Group for the period from 20 April 2005 to 31 December 2005.

The following pro forma results of the Group have been prepared assuming the Partner's Share Buyback has taken place on 1 January 2004 and are for information purposes only and do not purport to be indicative of future operating results:

	2004 HK$ millions	2005 HK$ millions
Turnover from continuing operations	22,868	26,494
Profit for the year from continuing operations	747	317
Profit/(loss) attributable to the equity holders of the Company – continuing operations	98	(398)
Earnings/(loss) per share from continuing operations attributable to the equity holders of the Company – basic and diluted	HK$0.02	HK$(0.09)

5. Business Combinations (continued)

(a) Deemed acquisition of Partner Communications Company Limited ("Partner") (continued)

The assets and liabilities arising from the deemed acquisition are as follows:

	Fair value HK$ millions	Book value HK$ millions
Fixed assets	3,402	3,402
Telecommunications licence	2,402	2,402
Other non-current assets – other receivables	280	280
Other non-current assets – brand name and customer base	4,088	–
Deferred tax assets	–	523
Cash and cash equivalents	8	8
Stocks	168	168
Trade and other receivables	1,290	1,290
Trade and other payables	(1,566)	(1,566)
Bank loans	(3,436)	(3,326)
Other long-term liabilities	(58)	(58)
Deferred tax liabilities	(581)	–
Net assets	5,997	3,123
Additional bank loan drawdown for Partner's Share Buyback	(1,964)	
Minority interest	(1,928)	
Net assets acquired	2,105	

The increase in the Group's share of Partner's net assets at fair value, which is attributable to the pre-existing 42.9% shareholding, amounting to HK$1,233 million, has been credited to the revaluation reserve (Note 29).

The excess of the Group's share of the consideration of the Partner's Share Buyback over the additional 9.3% shareholding deemed acquired, amounting to HK$468 million, has been recognised as goodwill. Goodwill arising from the acquisition of Partner in prior years, amounting to HK$417 million, has been transferred from carrying value of associated companies to goodwill, increasing the goodwill on acquisition of Partner to HK$885 million. This goodwill is attributable to the high profitability of the acquired business.

5. Business Combinations (continued)

(b) Acquisition of PT. Cyber Access Communications, subsequently renamed PT. Hutchison CP Telecommunications ("HCPT")

On 27 July 2005, the Group acquired 60% of the issued share capital of HCPT, a mobile operator in Indonesia that holds a combined nationwide 2G and 3G mobile telecommunications licence, for a cash consideration of approximately US$120 million (approximately HK$934 million). HCPT has no turnover for the period and contributed loss for the period of HK$5 million to the Group for the period from 27 July 2005 to 31 December 2005. Had the acquisition occurred on 1 January 2005, the Group's profit for the year from continuing operations would have been HK$178 million.

Details of net liabilities acquired and goodwill are as follows:

	HK$ millions
Purchase consideration (cash paid)	934
Fair value of net liabilities acquired – shown as below	(3)
Goodwill (Note 20)	937

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$ millions	**Book value** HK$ millions
Fixed assets	2	2
Trade and other receivables	13	13
Trade and other payables	(9)	(9)
Bank loans	(9)	(9)
Loan from minority shareholders	(2)	(2)
Net liabilities	(5)	(5)
Minority interest	2	
Net liabilities acquired	(3)	

The goodwill is attributable to the premium paid for acceleration into the Indonesia market. Goodwill arising from the acquisition has been determined based on the preliminary values assigned to the acquiree's assets and liabilities, and will be finalised upon completion of management's assessment in early 2006.

6. Turnover

Turnover comprises revenues from the provision of mobile telecommunications services; handset and accessory sales; fixed-line telecommunications services in Hong Kong, and other non-telecommunications businesses. An analysis of turnover is as follows:

	2004 HK$ millions	2005 HK$ millions
Mobile telecommunications services	11,743	20,986
Mobile telecommunications products	401	651
Fixed-line telecommunications services	1,870	2,204
Other non-telecommunications businesses	831	515
	14,845	24,356

7. Segment Information

Segmental information is provided on the basis of primary geographical regions which is the basis on which the Group manages its worldwide 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.

The segment information on turnover, operating (loss)/profit, depreciation and amortisation and capital expenditures from continuing operations are as follows:

	Turnover		Operating (loss)/profit*	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Company and subsidiary companies				
Hong Kong and Macau				
Mobile telecommunications	3,714	3,837	(524)	(420)
Fixed-line telecommunications	1,870	2,204	194	78
India	7,093	9,996	1,344	2,440
Israel	–	6,612	–	832
Thailand	1,219	1,045	(1,079)	(544)
Others (Note a)	949	662	(79)	(303)
	14,845	24,356	(144)	2,083

* Operating (loss)/profit before disposal of investments and others.

7. Segment Information (continued)

	Depreciation and amortisation		Capital expenditures	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Company and subsidiary companies				
Hong Kong and Macau				
Mobile telecommunications	886	1,189	557	415
Fixed-line telecommunications	476	618	704	425
India	857	797	2,463	2,744
Israel	-	1,149	-	531
Thailand	846	529	876	282
Others (Note a)	52	85	58	321
	3,117	4,367	4,658	4,718

Note:

(a) "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, Malaysia 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, Malaysia and Singapore and Corporate.

	2004 HK$ millions	2005 HK$ millions
Other segment items included in the profit and loss account are as follows:		
Impairment loss on fixed assets		
Hong Kong and Macau – Mobile telecommunications	142	-
Write-off of customer acquisition and retention costs		
Hong Kong and Macau – Mobile telecommunications	67	26
Thailand	83	73
	150	99
Provision for trade receivables		
Hong Kong and Macau		
Mobile telecommunications	(2)	3
Fixed-line telecommunications	61	31
India	67	242
Israel	-	2
Thailand	22	3
Others (Note a)	5	-
	153	281

7. Segment Information (continued)

	2004 HK$ millions	2005 HK$ millions
Segment information on balance sheet items are as follows:		
Segment assets		
Current assets		
Hong Kong and Macau		
Mobile telecommunications	1,911	1,101
Fixed-line telecommunications	587	669
India	2,198	6,880
Israel	–	1,889
Thailand	1,072	889
Others (Note b)	555	1,715
	6,323	13,143
Fixed assets		
Hong Kong and Macau		
Mobile telecommunications	4,289	3,982
Fixed-line telecommunications	6,324	6,347
India	5,792	7,674
Israel	–	2,989
Thailand	3,384	3,084
Others (Note b)	439	515
	20,228	24,591
Telecommunications licence		
Hong Kong and Macau – Mobile telecommunications	571	523
India	1,669	1,495
Israel	–	2,154
Thailand	1,200	1,066
Others (Note b)	116	98
	3,556	5,336
Goodwill		
Hong Kong and Macau		
Mobile telecommunications	1,465	1,465
Fixed-line telecommunications	33	2,385
India	4,255	3,782
Israel	–	870
Others (Note b)	386	1,186
	6,139	9,688

7. Segment Information (continued)

	2004 HK$ millions	2005 HK$ millions
Segment information on balance sheet items are as follows:		
Segment assets (continued)		
Other non-current assets		
Hong Kong and Macau		
Mobile telecommunications	235	260
Fixed-line telecommunications	1,239	1,384
India	10	-
Israel	-	3,844
Thailand	199	-
Others (Note b)	22	9
	1,705	5,497
Deferred tax assets		
Hong Kong and Macau – Mobile telecommunications	373	368
India	374	532
Thailand	97	18
	844	918
Associated companies		
Hong Kong and Macau – Mobile telecommunications	3	2
Others (Note b)	1,843	-
	1,846	2
Long-term deposits		
Hong Kong and Macau – Mobile telecommunications	79	416
Total assets		
Hong Kong and Macau		
Mobile telecommunications	8,926	8,117
Fixed-line telecommunications	8,183	10,785
India	14,298	20,363
Israel	-	11,746
Thailand	5,952	5,057
Others (Note b)	3,361	3,523
	40,720	59,591

7. Segment Information (continued)

	2004 HK$ millions	2005 HK$ millions
Segment liabilities		
Current liabilities		
Hong Kong and Macau		
Mobile telecommunications	5,748	1,714
Fixed-line telecommunications	881	983
India	7,274	6,725
Israel	–	1,592
Thailand	5,054	6,541
Others (Note b)	1,739	916
	20,696	18,471
Long-term loans		
Hong Kong and Macau		
Mobile telecommunications	–	4,128
Fixed-line telecommunications	13	262
India	652	4,057
Israel	–	4,483
Thailand	2,900	1,488
Others (Note b)	17	4,584
	3,582	19,002
Deferred tax liabilities		
India	–	91
Israel	–	680
Thailand	148	190
Others (Note b)	–	2
	148	963
Other long-term liabilities		
Hong Kong and Macau		
Mobile telecommunications	583	544
Fixed-line telecommunications	25	-
Israel	–	59
Thailand	734	686
Others (Note b)	86	44
	1,428	1,333
Total liabilities		
Hong Kong and Macau		
Mobile telecommunications	6,331	6,386
Fixed-line telecommunications	919	1,245
India	7,926	10,873
Israel	–	6,814
Thailand	8,836	8,905
Others (Note b)	1,842	5,546
	25,854	39,769

7. Segment Information (continued)

Note (b):

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

8. Staff Costs

	2004 HK$ millions	2005 HK$ millions
Wages and salaries, including termination benefits of HK$72 million (2004 – HK$89 million)	1,519	2,189
Pension costs – defined benefits plans (Note 27(b)(i))	36	(18)
Pension costs – defined contribution plans (Note 27(b)(ii))	25	39
Share options granted to directors and employees, excluding associated tax benefits of HK$36 million (2004 – HK$1 million)	6	109
	1,586	2,319

(a) Directors' emoluments

Name of Director	Fees HK$ millions	Basic salaries, allowance and benefits-in-kind HK$ millions	Bonus HK$ millions	Provident fund contribution HK$ millions	Share-based payments HK$ millions	2004 Total HK$ millions
FOK Kin-ning, Canning	0.28	–	–	–	–	0.28
CHOW WOO Mo Fong, Susan	0.28	–	–	–	–	0.28
Frank John SIXT	0.27	–	–	–	–	0.27
Dennis Pok Man LUI	0.21	3.63	8.60	0.26	–	12.70
Tim Lincoln PENNINGTON	0.21	2.52	1.38	0.40	–	4.51
CHAN Ting Yu	0.21	2.95	2.04	0.19	–	5.39
KWAN Kai Cheong	0.19	–	–	–	–	0.19
John W. STANTON	0.19	–	–	–	–	0.19
Kevin WESTLEY	0.19	–	–	–	–	0.19
	2.03	9.10	12.02	0.85	–	24.00

8. Staff Costs (continued)

(a) Directors' emoluments (continued)

Name of Director	Fees HK$ millions	Basic salaries, allowance and benefits-in-kind HK$ millions	Bonus HK$ millions	Provident fund contribution HK$ millions	Share-based payments HK$ millions	2005 Total HK$ millions
FOK Kin-ning, Canning	0.39	–	–	–	–	0.39
Dennis Pok Man LUI	0.27	3.52	10.00	0.27	9.40	23.46
Tim Lincoln PENNINGTON	0.27	3.47	2.48	0.56	3.48	10.26
Frank John SIXT	0.31	–	–	–	–	0.31
Naguib SAWIRIS (a)	0.01	–	–	–	–	0.01
Aldo MAREUSE (a)	0.01	–	–	–	–	0.01
KWAN Kai Cheong	0.63	–	–	–	–	0.63
John W STANTON	0.55	–	–	–	–	0.55
Kevin WESTLEY	0.63	–	–	–	–	0.63
CHOW WOO Mo Fong, Susan (b)	0.31	–	–	–	–	0.31
CHAN Ting Yu (c)	0.26	2.85	2.45	0.20	3.48	9.24
WOO Chiu Man, Cliff (d)	0.22	2.19	2.16	0.14	2.44	7.15
NARDI, Kar Wai Agnes (e)	0.10	2.85	2.00	0.19	2.78	7.92
	3.96	14.88	19.09	1.36	21.58	60.87

Notes:

(a) Appointed as director of the Company on 21 December 2005.

(b) Resigned as director of the Company and was appointed as alternate director of Mr Fok Kin-ning, Canning on 21 December 2005.

(c) Resigned as director of the Company and was appointed as alternate director of Mr Dennis Pok Man Lui on 21 December 2005.

(d) Appointed as director of the Company on 8 March 2005; resigned as director of the Company and was appointed as alternate director of Mr Tim Lincoln Pennington on 21 December 2005.

(e) Appointed as director of the Company on 4 August 2005; resigned as director of the Company and was appointed as alternate director of Mr Frank John Sixt on 21 December 2005.

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 2004 and 2005.

8. Staff Costs (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the year ended 31 December 2005 were two (2004 – two) directors of the Company, no executive of the Company (2004 – one) and three (2004 – two) directors of certain subsidiary companies of the Company. The aggregate remunerations paid to these highest paid individuals, who are non-directors of the Company, are as follows:

	2004 HK$ millions	2005 HK$ millions
Basic salaries, allowances and benefits-in-kind	9	8
Bonuses	8	11
Provident fund contributions	1	1
Share options granted to employees	–	13
	18	33

The emoluments of the above mentioned three (2004 – three) individuals, who are non-directors of the Company, with the highest emoluments fall within the following bands:

	2004 Number of individual	2005 Number of individual
Emolument bands		
HK$5,000,001 – HK$5,500,000	1	-
HK$6,000,001 – HK$6,500,000	1	-
HK$7,000,001 – HK$7,500,000	1	-
HK$9,500,001 – HK$10,000,000	–	1
HK$10,500,001 – HK$11,000,000	–	1
HK$12,500,001 – HK$13,000,000	–	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 2004 and 2005.

9. Other Operating Expenses

	2004 HK$ millions	2005 HK$ millions
Cost of services provided	4,989	8,673
General administrative and distribution costs	1,857	2,087
Impairment loss on fixed assets	142	-
Loss on disposal of fixed assets	2	7
Write-off of customer acquisition and retention costs	150	99
Operating leases in respect of		
Buildings	540	729
Hire of plant and machinery	453	458
Auditors' remuneration	20	34
Provision for trade receivables	153	281
Exchange (gain)/loss	(79)	18
Others	686	870
	8,913	13,256

10. Share of Results of Associated Companies

	2004 HK$ millions	2005 HK$ millions
Share of profits less losses of associated companies	738	173
Share of interest and other finance costs of associated companies	(186)	(40)
Share of taxation charge of associated companies	(214)	(47)
	338	86

11. Profit on Disposal of Investments and Others

	Note	2004 HK$ millions	2005 HK$ millions
Net profit on partial disposal of subsidiary companies	(a)	1,300	44
Negative goodwill on additional equity interests in a subsidiary company acquired	(b)	-	27
		1,300	71

(a) During the year ended 31 December 2004, the Group, by way of a share placement, disposed of approximately 26.5% equity interest in a subsidiary company, Hutchison Global Communications Holdings Limited, for a cash consideration of approximately HK$1,578 million and recorded a gain on partial disposal of a subsidiary company of approximately HK$1,300 million.

11. Profit on Disposal of Investments and Others (continued)

(a) (continued)

On 30 June 2005, Essar Teleholdings Limited ("ETH", a shareholder of Hutchison Essar Limited ("Hutchison Essar", a subsidiary company of the Company)) exercised a call option to acquire approximately 4% of the issued share capital of Hutchison Essar at a price to equal to approximately HK$476 million from Usha Martin Telematics Limited ("UMT") and Jaykay Finholding (India) Private Limited, both are subsidiary companies of the Group. As a result of the exercise of the call option by ETH, the Group recorded a gain on partial disposal of a subsidiary company of approximately HK$49 million.

During the year ended 31 December 2005, the Group's shareholding in Partner since the deemed acquisition date resulting from Partner's share buyback was diluted by approximately 0.4% to 51.8% following the exercise of share options held by Partner's option holders. The Group recorded a loss on partial disposal of a subsidiary company of approximately HK$5 million.

(b) In December 2005, ETH transferred to UMT approximately 0.57% of the issued share capital of Hutchison Essar. Such transfer was effected in consideration of certain promises including the waiver of all purchase rights in respect of the shares of Hutchison Essar comprising approximately 3.16% of the issued share capital of Hutchison Essar previously owned by Max Telecom Ventures Limited, a shareholder of Hutchison Essar. In this connection, the fair value of the 0.57% equity interest in Hutchison Essar, being the negative goodwill arising from the acquisition of the 0.57% additional equity interest in Hutchison Essar, amounted to approximately HK$27 million is recognised directly in the consolidated profit and loss account for the year ended 31 December 2005.

12. Interest and Other Finance Costs, Net

	2004 HK$ millions	2005 HK$ millions
Interest and other finance costs		
Bank loans and overdrafts	393	911
Other loans repayable within 5 years	71	37
Other loans not wholly repayable within 5 years	1	1
Obligations under finance leases	–	3
Notes and debentures repayable within 5 years	58	3
Notes and debentures not wholly repayable within 5 years	–	359
Amounts due to related companies	178	92
Accretion on licence fees liabilities	147	149
Guarantee and other finance fees	219	206
	1,067	1,761
Less: interest capitalised in respect of construction of fixed assets	(28)	(5)
	1,039	1,756
Fair value gain on derivative instruments:		
Currency swap	–	(4)
Cross-currency interest rate swap	–	(5)
Forward foreign exchange contracts	–	(78)
	1,039	1,669
Interest income	(24)	(65)
Interest and other finance costs, net	1,015	1,604

12. Interest and Other Finance Costs, Net (continued)

Guarantee and other finance fees included fees paid to related companies, comprised of subsidiary companies of Hutchison Whampoa Limited ("HWL"), amounting to approximately HK$142 million for the year ended 31 December 2005 (2004 – HK$152 million).

The capitalisation rate applied to funds borrowed for the funding of fixed assets is approximately from 2.2% to 4.6% (2004 – 1.9% to 6.6%).

13. Taxation

	Year ended 31 December 2004			Year ended 31 December 2005		
	Current taxation HK$ millions	Deferred taxation HK$ millions	Total HK$ millions	Current taxation HK$ millions	Deferred taxation HK$ millions	Total HK$ millions
Hong Kong	4	102	106	31	6	37
Outside Hong Kong	101	(22)	79	198	199	397
	105	80	185	229	205	434

Hong Kong profits tax has been provided for at the rate of 17.5% (2004 – 17.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided for at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits less available tax losses.

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

	2004 HK$ millions	2005 HK$ millions
Tax calculated at the domestic rates applicable to profits in the country concerned	(146)	1,143
Income not subject to taxation	(202)	(803)
Expenses not deductible for taxation purposes	156	126
Recognition of previously unrecognised tax losses of subsidiary companies	(268)	(729)
Under provision in prior years	2	22
Tax losses not recognised	643	673
Effect of change in tax rate	–	2
Total taxation charge	185	434

The change in average applicable tax rate is caused by a change in the profitability of the Group's subsidiary companies in respective countries.

14. Loss from Discontinued Operations

In May 2005, the Group entered into a contract to sell its mobile operations in Paraguay to a subsidiary company of Mexico's América Móvil S.A. The disposal was subject to regulatory approval and other conditions and was completed in July 2005. In this connection, the Group's mobile operations in Paraguay were presented as discontinued operations in accordance with HKFRS 5 "Non-current Assets held for Sale and Discontinued Operations". An analysis of the result of the discontinued operations, and the loss on disposal of discontinued operations is as follows:

	Year ended 31 December 2004 HK$ millions	Period ended 14 July 2005 HK$ millions
Turnover	115	60
Cost of inventories sold	(27)	(11)
Staff costs	(17)	(9)
Depreciation and amortisation	(33)	(16)
Other operating expenses	(92)	(40)
Taxation charge	-	-
Loss of discontinued operations	(54)	(16)
Loss on disposal of discontinued operations	-	(336)
Loss from discontinued operations	(54)	(352)
Cash used in operating activities	(21)	-
Cash (used in)/generated from investing activities	(19)	190
Total cash flows	(40)	190

15. Dividends

The Company did not declare any dividends for the years ended 31 December 2004 and 2005.

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 2005, the Group had consolidated accumulated losses of HK$7,114 million, representing accumulated losses in a majority of the Company's subsidiary companies. In relation to the HK$9 billion credit facility with a group of international banks (Note 24), the Company is restricted in its ability to pay dividends. As at 31 December 2005, HK$4,858 million 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.

16. Earnings/(Loss) per Share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2004	2005
Weighted average number of shares in issue	4,500,000,000	4,602,460,429
Profit/(loss) from continuing operations attributable to the equity holders of the Company (HK$ million)	24	(416)
Basic earnings/(loss) per share from continuing operations (HK$ per share)	0.01	(0.09)
Loss from discontinued operations attributable to the equity holders of the Company (HK$ million)	(54)	(352)
Basic loss per share from discontinued operations (HK$ per share)	(0.01)	(0.08)

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share options, the dilutive potential ordinary shares of the Company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares over the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

There were no potential ordinary shares as at 31 December 2004. The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share for the year ended 31 December 2005.

17. Current Assets

	Note	2004 HK$ millions	2005 HK$ millions
Stocks		485	688
Trade receivables, net of provision	(a)	1,719	3,265
Other receivables and prepayments	(b)	1,922	6,658
Receivables from related companies	(c)	85	86
Derivative financial assets	(d)	-	9
Other current assets		4,211	10,706
Cash and cash equivalents		2,102	2,436
Restricted cash		10	1
		6,323	13,143

17. Current Assets (continued)

(a) Trade receivables, net of provision

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

	2004 HK$ millions	2005 HK$ millions
The ageing analysis of the trade receivables, net of provision for trade receivables is as follows:		
Current	1,092	2,442
31-60 days	251	347
61-90 days	115	161
Over 90 days	261	315
	1,719	3,265

	2004 HK$ millions	2005 HK$ millions
Analysis of provision for trade receivables is as follows:		
At beginning of year	486	639
Relating to subsidiary companies acquired	–	158
Charge to the operating expense	153	281
Write-off during the year	(5)	(237)
Exchange translation differences	5	(19)
At end of year	639	822

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The Group has recognised a loss of HK$281 million (2004 – HK$153 million) for the provision of its trade receivables during the year ended 31 December 2005. The loss has been included in other operating expenses in the consolidated profit and loss account.

(b) Included in other receivables and prepayments as at 31 December 2005 are the purchase consideration for acquisition of BPL Mobile Cellular Limited, BPL Mobile Communications Limited and Essar Spacetel Limited of approximately HK$4,011 million (US$518 million). The acquisition of BPL Mobile Cellular Limited was completed on 2 January 2006 (Note 36(a)).

(c) The receivables from related companies as at 31 December 2004 and 2005, comprised of balances with subsidiary companies of HWL, are unsecured, interest free and have no fixed terms of repayment.

17. Current Assets (continued)

(d) Derivative financial assets

	2004 HK$ millions	2005 HK$ millions
Forward foreign exchange contract	–	8
Cross currency interest rate swap	–	1
	–	9

The Group has entered into a currency and interest rate swap arrangement with a bank to swap floating US dollar borrowings of US$80 million or approximately HK$623 million of floating rate at LIBOR + 0.4% per annum (2004 – US$80 million or approximately HK$623 million of floating rate at LIBOR + 0.4%) into fixed rate Indian Rupees borrowings of INR3,658 million at 4.3% per annum (2004 – INR3,658 million at 4.3% per annum) to match currency and interest rate exposure of the underlying business.

As at 31 December 2005, the fair value of forward foreign exchange contract and cross currency interest rate swap are approximately HK$8 million and HK$1 million respectively.

18. Fixed Assets

The movement of fixed assets for year ended 31 December 2004 is as follows:

	Buildings HK$ millions	Telecommunications 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
Additions - continuing operations	7	2,903	1,222	526	4,658
Additions - discontinued operations	-	10	-	9	19
Disposals	(19)	(59)	(3)	(424)	(505)
Relating to subsidiary companies acquired (Note 31(a))	45	28	-	11	84
Transfer from other assets	-	23	13	77	113
Transfer between categories	-	2,579	(2,319)	(260)	-
Exchange translation differences	16	152	3	61	232
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
Charge for the year from continuing operations	12	1,663	-	614	2,289
Charge for the year from discontinued operations	-	25	-	8	33
Disposals	(13)	(48)	-	(408)	(469)
Impairment	-	126	-	16	142
Exchange translation differences	8	20	-	47	75
At 31 December 2004	27	7,958	-	2,486	10,471
Net book value					
At 31 December 2004	164	16,941	1,257	1,866	20,228

18. Fixed Assets (continued)

The movement of fixed assets for year ended 31 December 2005 is as follows:

	Buildings 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 2005	191	24,899	1,257	4,352	30,699
Additions – continuing operations	-	1,147	3,116	455	4,718
Additions – discontinued operations	-	10	8	2	20
Disposals	-	(625)	(1)	(94)	(720)
Relating to subsidiary companies acquired (Notes 5 and 31(a))	16	6,971	-	1,771	8,758
Relating to subsidiary companies disposed of	-	(253)	(13)	(45)	(311)
Transfer to other assets	-	(90)	(1)	(23)	(114)
Transfer between categories	6	2,987	(3,042)	49	-
Exchange translation differences	(3)	(686)	(24)	(152)	(865)
At 31 December 2005	210	34,360	1,300	6,315	42,185
Accumulated depreciation and impairment losses					
At 1 January 2005	27	7,958	-	2,486	10,471
Charge for the year from continuing operations	6	2,303	-	753	3,062
Charge for the year from discontinued operations	-	14	-	2	16
Disposals	-	(577)	-	(120)	(697)
Relating to subsidiary companies acquired	16	4,418	-	920	5,354
Relating to subsidiary companies disposed of	-	(95)	-	(26)	(121)
Transfer to other assets	-	(59)	-	(18)	(77)
Transfer between categories	-	16	-	(16)	-
Exchange translation differences	-	(315)	-	(99)	(414)
At 31 December 2005	49	13,663	-	3,882	17,594
Net book value					
At 31 December 2005	161	20,697	1,300	2,433	24,591

18. Fixed Assets (continued)

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

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

	2004 HK$ millions	2005 HK$ millions
Net book value of buildings comprises:		
Hong Kong		
Long leasehold (not less than 50 years)	8	1
Medium leasehold (less than 50 years but not less than 10 years)	95	55
Outside Hong Kong		
Freehold	32	34
Long leasehold	17	18
Medium leasehold	–	38
Short leasehold (less than 10 years)	12	15
	164	161

At 31 December 2005, telecommunications and network equipment includes assets held under defeased finance leases at a cost of HK$3,222 million (2004-HK$3,222 million) and accumulated depreciation and impairment losses of HK$2,639 million (2004-HK$2,513 million). Depreciation and impairment loss recognised for the year ended 31 December 2005 amounted to HK$126 million (2004 – HK$132 million) and nil (2004 – HK$83 million) respectively.

At 31 December 2005, other assets includes assets held under finance leases at a cost of HK$73 million (2004-nil) and accumulated depreciation of HK$5 million (2004-nil). Depreciation recognised for the year ended 31 December 2005 amounted to HK$5 million (2004 – nil).

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.

19. Telecommunications Licences

	2004 HK$ millions	2005 HK$ millions
At beginning of year, as previously reported	2,489	2,634
Prior year adjustments (Note 2(a))	1,013	922
At beginning of year, as restated	3,502	3,556
Additions	249	-
Relating to subsidiary companies acquired (Note 5)	–	2,402
Amortisation for the year	(286)	(384)
Exchange translation differences	91	(238)
At end of year	3,556	5,336

As at 31 December 2005, the estimated aggregate amortisation of telecommunications licences for each of the five succeeding years is HK$2,098 million (2004 – HK$1,430 million).

20. Goodwill

	Note	2004 HK$ millions	2005 HK$ millions
Net book value at beginning of year		6,168	6,139
Adjustment on goodwill	(a)	(5)	-
Relating to additional equity interests in subsidiary companies acquired	(b)	–	2,398
Relating to subsidiary companies acquired (Notes 5 and 31(a))		–	1,822
Relating to subsidiary companies partially disposed of		(30)	(340)
Relating to subsidiary companies disposed of (Note 31(b))		–	(177)
Exchange translation differences		6	(154)
Net book value at end of year		6,139	9,688

(a) 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.

20. Goodwill (continued)

(b) In January 2005, the Group's shareholding in Kasapa Telecom Limited increased from 80% to 100% following the transfer of the remaining 20% shareholding from the minority shareholders at no consideration. In this connection, the Group recorded a goodwill of HK$46 million.

In July 2005, the Group privatised, by way of scheme of arrangement ("Scheme"), Hutchison Global Communications Holdings Limited ("HGCH"), which holds the Group's Hong Kong fixed-line business. The Supreme Court of Bermuda sanctioned the Scheme on 8 July 2005 and the Scheme became effective on 15 July 2005. Holders of over 99% of HGCH shares not held by the Group, elected (or were deemed to have elected) to receive shares in the Company as the consideration for the cancellation of their HGCH shares. This, together with those who elected cash and the consideration under an offer made on behalf of the Company in relation to previously outstanding share options of HGCH, resulted in a total of HK$475 million of cash drawn from the Group's debt facilities, approximately 253 million new shares (representing 5.3% of the Company's enlarged issued share capital and 5.6% of the Company's pre-privatisation issued share capital) being issued by the Company, and approximately 60 million existing shares in the Company originally held by the HWL group being transferred to certain previous HGCH shareholders and optionholders. In this connection, the Group's shareholding in HGCH increased from 52.53% to 100% and recorded a goodwill of HK$2,352 million (Note 31(d)).

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.

	2004 HK$ millions	2005 HK$ millions
Hong Kong and Macau		
Mobile telecommunications	1,465	1,465
Fixed-line telecommunications services	33	2,385
India	4,255	3,782
Israel	–	870
Indonesia	–	932
Others (Note a)	386	254
	6,139	9,688

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. For CGU in Sri Lanka and Ghana, cash flow projections were based on a period until their licence expiry in 2012 to 2016. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The weighted average growth rates were based on past performance of the Group's respective CGUs and its expectations for the market development and do not exceed the long-term average growth rate in which the CGU operates. The pre-tax discount rate applied to the cash flow projections reflects specific risks relating to the relevant segments and range from 8% – 15%.

Note (a)

"Others" is currently comprised of Sri Lanka and Ghana. "Others" in the prior year was comprised of Paraguay, Sri Lanka and Ghana.

21. Other Non-current Assets

	2004 HK$ millions	2005 HK$ millions
Customer acquisition and retention costs		
Net book value at beginning of year	202	303
Additions	728	650
Write off during the year	(150)	(99)
Amortisation for the year	(480)	(533)
Exchange translation differences	3	(20)
Net book value at end of year	303	301
Prepaid capacity and maintenance		
Net book value at beginning of year	1,278	1,238
Additions	22	200
Amortisation for the year	(62)	(94)
Net book value at end of year	1,238	1,344
Brand name		
Net book value at beginning of year	-	-
Relating to subsidiary companies acquired (Note 5(a))	-	726
Amortisation for the year	-	(30)
Exchange translation differences	-	(44)
Net book value at end of year	-	652
Customer base		
Net book value at beginning of year	-	-
Relating to subsidiary companies acquired (Note 5(a))	-	3,362
Amortisation for the year	-	(264)
Exchange translation differences	-	(205)
Net book value at end of year	-	2,893
Other receivables and prepayments	164	307
Total other non-current assets	1,705	5,497

As at 31 December 2005, the estimated aggregate amortisation of brand name and customer base for each of the five succeeding years are HK$200 million and HK$1,754 million respectively (2004 - Nil).

Other receivables are comprised of mainly long-term trade receivables. The fair value of other receivables and prepayments, which approximate their carrying amounts, at the balance sheet date are based on cash flows discounted using a rate based on the borrowing rate of 5% to 5.4% per annum.

22. Associated Companies

	2004 HK$ millions	2005 HK$ millions
Investments at cost:		
Listed shares, outside Hong Kong	586	-
Unlisted shares, Hong Kong	8	6
Share of undistributed post acquisition profit (loss)	1,252	(4)
Investment in associated companies	1,846	2

The Group has no listed investments as at 31 December 2005. The market value of the listed investments as at 31 December 2004 was HK$5,289 million.

As at 31 December 2004, the Group had 42.9% shareholding in Partner, the Group's mobile telecommunications operation in Israel. On 20 April 2005, the buy back of shares by Partner lifted the Group's shareholding in Partner to 52.2% and resulting in the consolidation of Partner as a subsidiary company for the first time (See Note 5(a)).

The other associated companies of the Group have no material effect on the results or assets of the Group.

23. Long-term Deposit

Long-term deposits are pledged to a bank as collateral to secure a subsidiary company's obligations under the defeasance of finance lease and certain performance bonds required by the Office of Telecommunications Authority ("OFTA") under the terms of the mobile telecommunications licence granted to a subsidiary company.

24. Long-term Loans

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

	Company		Group	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Bank loans				
Repayable within 5 years	1,000	-	15,604	22,521
Not wholly repayable within 5 years	-	-	227	-
Less: current portion	(1,000)	-	(12,281)	(7,677)
	-	-	3,550	14,844
Other loans				
Repayable within 5 years	-	-	1,331	789
Not wholly repayable within 5 years	-	-	15	13
Less: current portion	-	-	(1,316)	(11)
	-	-	30	791
Notes and debentures				
Repayable within 5 years	-	-	249	2
Not wholly repayable within 5 years	-	-	-	3,367
Less: current portion	-	-	(247)	(2)
	-	-	2	3,367
	-	-	3,582	19,002

The long-term loans are repayable as follows:

	Group	
	2004 HK$ millions	2005 HK$ millions
Bank loans		
After 1 year, but within 2 years	3,045	1,775
After 2 years, but within 5 years	484	13,069
After 5 years	21	-
Other loans		
After 1 year, but within 2 years	1	14
After 2 years, but within 5 years	22	772
After 5 years	7	5
Notes and debentures		
After 1 year, but within 2 years	2	-
After 2 years, but within 5 years	-	1,947
After 5 years	-	1,420
	3,582	19,002

24. Long-term Loans (continued)

The outstanding bank loans and other interest bearing borrowings, excluding loan from minority shareholders of nil (2004 – HK$4 million), as at 31 December 2004 and 2005 by segment, as well as information regarding maturities and interest expenses for the year ended 31 December 2004 and 2005 in respect of such debt are as follows:

	As at 31 December 2004			Year ended 31 December 2004
	Short-term HK$ millions	Long-term HK$ millions	Total debt HK$ millions	Interest expenses HK$ millions
Hong Kong and Macau				
Mobile telecommunications	4,110	–	4,110	43
Fixed-line telecommunications	1	13	14	1
India	4,393	652	5,045	333
Thailand	4,183	2,900	7,083	142
Others	1,157	17	1,174	4
	13,844	3,582	17,426	523

	As at 31 December 2005			Year ended 31 December 2005
	Short-term HK$ millions	Long-term HK$ millions	Total debt HK$ millions	Interest expenses HK$ millions
Hong Kong and Macau				
Mobile telecommunications	–	4,128	4,128	144
Fixed-line telecommunications	2	262	264	1
India	1,796	4,057	5,853	342
Israel	58	4,483	4,541	429
Thailand	5,698	1,488	7,186	299
Others	136	4,584	4,720	99
	7,690	19,002	26,692	1,314

24. Long-term Loans (continued)

Included in the other loans are obligations under finance lease repayable as follows:

	2004 HK$ millions	2005 HK$ millions
Finance lease obligations – minimum lease payments:		
Not later than 1 year	–	10
After 1 year, but within 2 years	–	10
After 2 years, but within 5 years	–	15
	–	35
Future finance charges on finance lease obligations	–	(3)
Present value of finance lease obligations	–	32
The present value of finance lease obligations is as follows:		
Not later than 1 year	–	9
After 1 year, but within 2 years	–	9
After 2 years, but within 5 years	–	14
	–	32

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

	Maturity Date	Company		Group	
		2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Secured bank loans					
Fixed, 5.58% - 7.24% per annum	2006 - 2008	-	-	16	1,257
Variable, 4.84% - 8.17% per annum	2006 - 2009	1,000	-	3,815	12,960
Unsecured bank loans					
Fixed, 2.63% - 5.28% per annum	2006	-	-	38	27
Variable, 4.59%- 8.25% per annum	2006 - 2010	-	-	11,962	8,277
Other secured loans					
- finance lease obligations	2007 - 2009	-	-	-	32
Other unsecured loans					
Fixed, NIL% - 7.5% per annum	2006 - 2014	-	-	524	14
Variable, 5.99% - 7.1% per annum	2007 - 2009	-	-	822	756
Notes & debentures					
Fixed, NIL% per annum	2006	-	-	249	2
Variable, 6.65% per annum	2012	-	-	-	3,367
Total long term-loans, including current maturities		1,000	-	17,426	26,692
Current maturities of long-term loans		(1,000)	-	(13,844)	(7,690)
Total long-term loans		-	-	3,582	19,002

24. Long-term Loans (continued)

The fair values of the Group's total borrowings are based on cash flows discounted using the effective interest rates of the Group's total borrowings, excluding obligations under finance lease, at the balance sheet date, ranging from 2.63% to 8.25%.

The fair values of the Group's total borrowings as at 31 December 2005 were approximately HK$26,692 million.

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 bear interest at the rate of 4.25% per annum. In April 2005, 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 2010. The redemption was financed by the new bank facility and the CPI linked Shekel-denominated debt.

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 aggregating to 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 of all assets of 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 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 of 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 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.

24. Long-term Loans (continued)

The outstanding loan balances are denominated in the following currencies:

	Company		Group	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Hong Kong dollars	1,000	-	5,195	6,260
Israeli Shekel	-	-	-	4,515
Indian Rupees	-	-	5,045	5,230
Thai Baht	-	-	2,530	5,421
Japanese Yen	-	-	4,326	1,595
US dollars	-	-	276	3,626
Singapore dollars	-	-	27	14
Malaysian Ringgit	-	-	11	15
Renminbi	-	-	16	16
	1,000	-	17,426	26,692

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).

25. Other Current Liabilities

	Note	2004 HK$ millions	2005 HK$ millions
Trade payables	(a)	1,192	2,206
Accrued expenses and other payables		3,945	5,320
Deferred revenue		382	564
Receipts in advance		781	1,181
Capital expenditure accruals		258	950
Derivative financial liabilities	(b)	-	116
Payables to related companies	(c)	68	153
Current portion of licence fees liabilities (Note 27(a))		137	161
Taxation		89	130
		6,852	10,781

25. Other Current Liabilities (continued)

		2004 HK$ millions	2005 HK$ millions
(a)	Trade payables		
	The ageing analysis of the trade payables is as follows:		
	Current	487	586
	31 - 60 days	106	560
	61 - 90 days	125	660
	Over 90 days	474	400
		1,192	2,206
(b)	Derivative financial liabilities		
	Currency swap	–	107
	Forward foreign exchange contracts	–	9
		–	116

The Group has entered into currency swap arrangements with banks to swap Japanese Yen borrowings of JPY24,195 million or HK$1,595 million (2004 – JPY59,350 million or HK$4,326 million) and US dollar borrowings of US$22 million or HK$175 million (2004 – US$28 million or HK$227 million) into Thai Baht borrowings to match currency exposure of the underlying business.

As at 31 December 2005, the fair value of currency swap and forward foreign exchange contract are approximately HK$107 million and HK$9 million respectively.

(c) The payables to related companies represented balances with subsidiary companies of HWL, which comprised of guarantee fee payable of HK$11 million (2004 – nil), accrued interest payable of HK$25 million (2004 – HK$25 million) and the remaining balance arose during the ordinary course of business. The balances are unsecured, interest free and have no fixed terms of repayment.

26. 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:

	2004 HK$ millions	2005 HK$ millions
Deferred tax assets	844	918
Deferred tax liabilities	(148)	(963)
Net deferred tax assets/(liabilities)	696	(45)
Movements in net deferred tax assets/(liabilities) are as follows:		
At beginning of year	774	696
Net charge for the year	(80)	(205)
Relating to subsidiary companies acquired	–	(581)
Exchange translation difference	2	45
At end of year	696	(45)
Analysis of net deferred tax assets/(liabilities):		
Tax losses	2,125	1,454
Accelerated depreciation allowances	(1,429)	(635)
Fair value adjustment arising from business combination	–	(937)
Other temporary differences	–	73
	696	(45)
The potential deferred tax assets which have not been recognised in the accounts are as follows:		
Arising from unused tax losses	1,401	2,578
Arising from 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.

26. Deferred Taxation (continued)

Out of the total unrecognised tax losses of HK$10,405 million (2004 – HK$5,760 million) carried forward, an amount of HK$6,392 million (2004 – HK$4,553 million) can be carried forward indefinitely. The remaining HK$4,013 million (2004 – HK$1,207 million) will expire in the following years:

	2004 HK$ millions	2005 HK$ millions
In the first year	1	99
In the second year	7	393
In the third year	6	1,335
In the forth year	3	1,006
In the fifth to tenth years inclusive	1,190	1,180
	1,207	4,013

27. Other Long-term Liabilities

	Note	2004 HK$ millions	2005 HK$ millions
Long-term licence fees liabilities	(a)	1,293	1,225
Pension obligations	(b)	94	12
Employee retirement obligations		–	52
Deferred revenue		30	30
Accrued expenses and other payables		11	14
		1,428	1,333

(a) Long-term licence fees liabilities

	2004 HK$ millions	2005 HK$ millions
Licence fees liabilities – minimal annual fees payments:		
Not later than 1 year	155	186
After 1 year, but within 5 years	865	895
After 5 years	1,735	1,446
	2,755	2,527
Future finance charges on licence fees liabilities	(1,325)	(1,141)
Present value of licence fees liabilities	1,430	1,386
The present value of licence fees liabilities is as follows:		
Not later than 1 year (Note 25)	137	161
After 1 year, but within 5 years	427	386
After 5 years	866	839
	1,430	1,386

27. Other Long-term Liabilities (continued)

(b) Pension obligations

	2004 HK$ millions	2005 HK$ millions
Analysis of pension obligations is as follows:		
Pension obligations, at beginning of year	97	94
Total expense	36	(18)
Contributions paid	(39)	(64)
Pension obligations, at end of year	94	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.

(i) Defined benefit plans

The Group's defined benefit plans represent contributory final salary pension plans in Hong Kong. At 31 December 2005, 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:

	2004	2005
Discount rate applied to defined benefit plan obligations	3.5% - 3.75%	4.5%
Expected return on plan assets	8.0%	8.0%
Future salary increases	3.0% - 4.0%	3.0% - 4.0%
Interest credited on plan accounts	5.0% - 6.0%	5.0% - 6.0%

	2004 HK$ millions	2005 HK$ millions
The amount recognised in the consolidated balance sheet as at the end of year:		
Present value of defined benefit obligations	409	205
Fair value of plan assets	315	193
Liability recognised in consolidated balance sheet	94	12

27. Other Long-term Liabilities (continued)

(b) Pension obligations (continued)

(i) Defined benefit plans (continued)

	2004 HK$ millions	2005 HK$ millions
The limit of net assets to be recognised		
Cumulative unrecognised net actuarial losses and past service cost	82	-
Present value of available future refunds or reduction in future contribution	1	11
Limit per HKAS 19 paragraph 58/58A/58B	83	11
Net pension liabilities recognised in consolidated balance sheet	94	12
Reduction of net asset due to the limit	-	-
The amount recognised in the consolidated profit and loss account:		
Current service cost	44	39
Interest cost	15	11
Expected return on scheme assets	(24)	(20)
Losses/(gains) on curtailments and settlements	1	(48)
Expenses/(income) recognised in the consolidated profit and loss account	36	(18)
Changes in present value of the defined benefit obligation		
Present value of obligation as at beginning of the year	312	409
Current service cost net of employee contribution	44	39
Actual employee contribution	4	2
Interest cost	15	11
Actuarial losses/(gains) on obligation	38	(34)
Gains on curtailments and settlements	-	(48)
Actual benefits paid	(25)	(172)
Net transfer in/(out) liabilities	21	(2)
Present value of obligation as at end of year	409	205
Changes in the fair value of the assets		
Fair value of plan assets as the beginning of the year	265	315
Expected return on plan assets	24	20
Actuarial (losses)/gains on obligation	(9)	13
Assets distributed on settlements	-	(120)
Actual company contributions	36	17
Actual benefits paid	3	2
Net transfer out assets	(25)	(52)
Exchange differences	21	(2)
Fair value of plan assets as at end of year	315	193

27. Other Long-term Liabilities (continued)

(b) Pension obligations (continued)

(i) Defined benefit plans (continued)

The analysis of the fair value of plan assets at 31 December is as follows:

	2004 HK$ millions	2005 HK$ millions
Equity instruments	217	132
Debt instruments	67	34
Other assets	31	27
	315	193

The history of experience adjustments is as follows:

	2004 HK$ millions	2005 HK$ millions
Fair value of plan assets	315	193
Present value of obligations	(409)	(205)
(Deficit)/surplus	(94)	(12)
Experience adjustments on plan assets	(8)	12
Percentage of plan assets (%)	3	6
Experience adjustments on plan obligations	(7)	(13)
Percentage of plan obligations (%)	2	6

The actual gain on plan assets during the year ended 31 December 2005 was HK$32 million (2004 – loss of HK$16 million).

The accumulated actuarial losses recognised in the statement of recognised income and expense as at 31 December 2005 was HK$28 million (2004 – HK$70 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 2005. 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.

27. Other Long-term Liabilities (continued)

(b) Pension obligations (continued)

(i) 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 2005, the plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements.

(ii) 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. Forfeited contribution totaling HK$3 million (2004 – HK$1 million) were used to reduce the current year's level of contribution.

28. Share Capital

	2004 Number of shares	2005 Number of shares	2004	2005
Authorised:				
Ordinary shares of HK$0.25 each	10,000,000,000	10,000,000,000	HK$2,500,000,000	HK$2,500,000,000
Preference shares of US$0.01 each	1,000,000	1,000,000	US$10,000	US$10,000

	2004 Number of shares	2005 Number of shares	2004 HK$ millions	2005 HK$ millions
Issued and fully paid:				
Ordinary shares				
At beginning of year	4,500,000,000	4,500,000,000	1,125	1,125
Issued during the year (Note 20(b))	-	252,546,209	-	63
At end of year	4,500,000,000	4,752,546,209	1,125	1,188

Share option scheme of the Company

On 17 September 2004, the Company approved and adopted by a resolution of the then sole shareholder of the Company a share option scheme (the "Share Option Scheme"). The Share Option Scheme was further approved at an extraordinary general meeting of shareholders of HWL on 19 May 2005 and subsequently amended by written resolutions of the Directors of the Company passed on 12 July 2005.

Share options are granted to directors and employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Options are conditional on the employee completing, at a minimum, one year's service (the vesting period). The options are exercisable starting one year from the grant date; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No options were granted during 2004. On 8 August 2005, 76,300,000 options were granted to directors and employees of the Group at an exercise price of HK$8.70 per share. One third of these options are exercisable on the expiry of each of the first, second and third year after the date of which the option was accepted. There was no movement of the options during the period ended 31 December 2005.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was HK$3.05 at measurement date. The significant inputs into the model were share price of HK$8.70, grant date on 8 August 2005, at exercise price of HK$8.70 per share, standard deviation of expected share price returns of 27.76%, expected life of options of 5.5 to 6.5 years, zero expected dividend paid out rate, annual risk-free interest rate of 3.68% and an expected workforce turnover rate of 5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of comparable telecommunication companies over the last three years.

29. Reserves

	Share premium HK$ millions	Accumulated losses HK$ millions	Cumulative translation adjustments HK$ millions	Fair value and other reserves HK$ millions	Investment revaluation reserves HK$ millions	Total HK$ millions
Balance at 1 January 2004, as previously reported	-	(6,141)	(234)	-	-	(6,375)
Prior year adjustments (Note 2(a))	-	(349)	1	7	-	(341)
Balance at 1 January 2004, as restated	**-**	**(6,490)**	**(233)**	**7**	**-**	**(6,716)**
Currency translation differences	-	-	(9)	-	-	(9)
Issuance of ordinary shares	19,744	-	-	-	-	19,744
Shares issuance expenses	(414)	-	-	-	-	(414)
Waiver of loan from an intermediate holding company	-	146	-	-	-	146
Profit attributable to equity holders of the Company for the year, as restated	-	(30)	-	-	-	(30)
Employee share option scheme - value of services provided	-	-	-	18	-	18
Actuarial gains and losses of defined benefits plans	-	(34)	-	-	-	(34)
Balance at 31 December 2004, as restated	**19,330**	**(6,408)**	**(242)**	**25**	**-**	**12,705**
Balance at 31 December 2004, as previously reported	19,330	(5,923)	(245)	-	-	13,162
Prior year adjustments (Note 2(a))	-	(485)	3	25	-	(457)
Balance at 31 December 2004, as restated	**19,330**	**(6,408)**	**(242)**	**25**	**-**	**12,705**
Adjustment in respect of changes in accounting policy for financial instruments	-	20	-	-	-	20
Balance at 1 January 2005, as restated	**19,330**	**(6,388)**	**(242)**	**25**	**-**	**12,725**
Currency translation differences	-	-	(318)	2	-	(316)
Relating to subsidiary companies acquired (Note 31(d))	1,857	-	-	-	1,233	3,090
Relating to subsidiary companies disposed of	-	-	119	-	-	119
Loss attributable to equity holders of the Company for the year	-	(768)	-	-	-	(768)
Employee share option scheme - value of services provided	-	-	-	90	-	90
Actuarial gains and losses of defined benefits plans	-	42	-	-	-	42
Balance at 31 December 2005	**21,187**	**(7,114)**	**(441)**	**117**	**1,233**	**14,982**

29. Reserves (continued)

The accumulated losses of the Group include accumulated losses of HK$4 million by associated companies as at 31 December 2005 (as at 31 December 2004 – retained profit of HK$1,132 million).

30. Minority Interest

	2004 HK$ millions	2005 HK$ millions
Equity interests	1,032	3,652
Loans – interest bearing	4	–
	1,036	3,652

The loans from minority shareholders as at 31 December 2004 were unsecured, bears interest at LIBOR+2% per annum and have no fixed term of repayment.

31. Notes to Consolidated Cash Flow Statement

(a) Purchases of subsidiary companies

	2004 HK$ millions	2005 HK$ millions
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	84	3,404
Telecommunications licence	–	2,402
Other non-current assets – other receivables	–	280
Other non-current assets – brand name and customer base	–	4,088
Goodwill (Note 20)	–	1,822
Associated companies	3	–
Stocks	–	168
Trade and other receivables	282	1,303
Bank and other loans	(128)	(5,409)
Trade and other payables	(304)	(1,574)
Other long-term liabilities	–	(58)
Deferred taxation liabilities	–	(581)
Loan from minority interest	–	(3)
Minority interest	8	(1,926)
	(55)	3,916
Less: Investments amount held prior to purchase	(14)	(1,757)
Less: Investments revaluation reserve upon acquisition	–	(1,233)
	(69)	926
Discharged by:		
Cash payment	–	934
Less: Cash and cash equivalents purchased	(69)	(8)
Total net cash consideration	(69)	926

31. Notes to Consolidated Cash Flow Statement (continued)

(b) Disposal of subsidiary companies

	2004 HK$ millions	2005 HK$ millions
Net assets disposed of (excluding cash and cash equivalents):		
Fixed assets	–	190
Other non-current assets	–	22
Goodwill (Note 20)	–	177
Stocks	–	7
Trade and other receivables	–	66
Trade and other payables	–	(50)
Exchange reserve	–	119
Minority interest	–	(2)
	–	529
Loss on disposal of subsidiary companies	–	(336)
	–	193
Satisfied by:		
Cash payment	–	198
Less: Cash and cash equivalents disposed of	–	(5)
Total net cash consideration	–	193

31. 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 interest HK$ millions	Total HK$ millions
At 1 January 2004, as previously reported	22,903	12,968	743	36,614
Prior year adjustments	-	-	(48)	(48)
At 1 January 2004, as restated	22,903	12,968	695	36,566
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 interest in profit	-	-	270	270
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)
Share of other reserves	-	-	3	3
Actuarial losses of defined benefits plans	-	-	(13)	(13)
At 31 December 2004, as restated	-	17,426	1,036	18,462
At 31 December 2004, as previously reported	-	17,426	1,068	18,494
Prior year adjustments	-	-	(32)	(32)
At 31 December 2004, as restated	-	17,426	1,036	18,462
Adjustment in respect of changes in accounting policy for financial instruments	-	129	(36)	93
At 1 January 2005, as restated	-	17,555	1,000	18,555
New loans	-	26,779	-	26,779
Repayment of loans	-	(22,208)	(3)	(22,211)
Net cash flows from financing activities	-	4,571	(3)	4,568
Minority interest in profit	-	-	618	618
Exchange translation differences	-	(426)	(151)	(577)
Relating to a subsidiary company disposed of	-	-	(2)	(2)
Relating to a subsidiary company partially disposed of	-	-	17	17
Relating to subsidiary companies acquired	-	5,409	1,929	7,338
Relating to additional interest in subsidiary companies acquired	-	-	(26)	(26)
Equity contribution from minority shareholders	-	-	312	312
Dividend paid	-	-	(70)	(70)
Share of other reserves	-	-	27	27
Actuarial gains of defined benefits plans	-	-	5	5
Transfer of loans	-	4	(4)	-
Fair value gain on derivative instruments	-	(226)	-	(226)
Net off of loan facility fees	-	(195)	-	(195)
At 31 December 2005	-	26,692	3,652	30,344

31. Notes to Consolidated Cash Flow Statement (continued)

(d) Significant non-cash transactions

During the year ended 31 December 2004, 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.

During the year ended 31 December 2005, the Group privatised HGCH by way of scheme of arrangement (Note 20(b)). In this connection, the Group issued approximately 253 million new ordinary shares with an imputed value of HK$7.60 per ordinary share and resulting in an increase of share capital and share premium by HK$63 million and HK$1,857 million respectively (Note 28 and 29).

32. Contingent Liabilities

At 31 December 2005, the Group had contingent liabilities in respect of performance guarantees amounting to HK$887 million (At 31 December 2004 – HK$564 million).

33. Commitments

Outstanding Group commitments not provided for in the accounts are as follows:

(a) Capital commitments

	Telecommunications, mobile network		Telecommunications, fixed network	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Contracted but not provided for	1,565	3,792	638	606
Authorised but not contracted for (Note)	4,503	11,787	901	316
	6,068	15,579	1,539	922

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	
	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions
Not later than one year	343	561	201	174
Later than one year and not later than five years	448	816	123	130
Later than five years	547	810	51	57
	1,338	2,187	375	361

33. Commitments (continued)

(c) Acquisition of telecommunications licence for third generation mobile services

On 22 October 2001, a subsidiary of the Company was issued a mobile carrier licence (the "Licence") and was committed to pay for fixed and variable fees under the Licence for duration of 15 years. This Licence is for the provision of public telecommunications network services using third generation mobile services technology in Hong Kong. Beginning from the sixth year of the Licence, variable licence fees payable amount to 5% of network turnover in respect of the relevant year; or the appropriate fee in respect of the relevant year whichever is greater. The net present value of the appropriation fee has already been recorded as licence fees liabilities as of 31 December 2005.

(d) Royalties Commitments

Partner is committed to pay royalties to the Government of Israel at 3.5% on its "income from cellular services" as defined in the "Telecommunications (Royalties) Regulations, 2001" which includes all kinds of income of Partner from the granting of Bezeq services under the licence – including airtime, roaming services and non-recurring connection fees, but excluding income transferred to another holder of a communications licence and deducting bad debts, payments to another communication licence in respect of interconnection, payments for roaming services to foreign operators and expenses related to the sale of equipment. The rate of royalty payments paid by cellular operators will be reduced annually by 0.5%, starting 1 January 2006, to a level of 1%.

(e) 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.

As at 31 December 2005, the Group held call options, both directly and indirectly, which, if exercised, would entitle the Group to additional equity interests in its investment holding companies in India, in each case subject to the Indian government's foreign ownership regulation. Conversely, some Indian shareholders held put options that could, again subject to the foreign ownership restrictions, require the Group to purchase additional equity interests in the 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. These options were terminated in March 2006. Also, one of the Indian shareholders had a call option that could, in certain circumstances, dilute to some extent the Group's indirect minority holdings in the Indian operating companies. The call option was exercised by the option holder on 30 June 2005.

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 HWL Group's mobile telecommunications related interests in Hutchison Telecommunications Argentina S.A..

34. Substantial Shareholders

As at 31 December 2004, the Directors regarded HWL, a company incorporated in Hong Kong and listed on the Main Board of Hong Kong Stock Exchange, as being its ultimate holding company.

As at 31 December 2005, the Company is owned as to 49.8% by HWL and 19.31% by Orascom Telecom Holding S.A.E.. The remaining shares are widely held. As there was no shareholder, directly or indirectly, which has more than 50% of the voting control or otherwise has governing power over the Company, the Directors consider that the Company has no ultimate holding company as at 31 December 2005.

35. Related Party Transactions

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related party of the Group where those parties are individuals.

Related Party Group:

(1) HWL 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) Hindjua Group
- (f) NTT Docomo Inc.

35. Related Party Transactions (continued)

In addition to the transactions and balances disclosed elsewhere in these accounts, the Group entered into the following material related party transactions.

	2004 HK$ millions	2005 HK$ millions
(i) Transactions during the year:		
(a) HWL Group		
Fixed telecommunications and other services	(51)	(72)
Mobile telecommunications services income	(14)	(19)
Rental expenses on lease arrangements	85	72
Bill collection services fee expenses	8	11
Roaming arrangement fee income	(14)	(1)
Sharing of services arrangements	22	30
Dealership services fee expenses	10	11
Global Procurement services arrangements	82	26
Provision of data center services	(20)	(17)
Sales of handsets	(46)	-
3G handset development costs recharge income	(47)	-
Purchase of handset and accessories	32	965
Purchase of office supplies	6	6
Advertising and promotion expenses	5	6
Waiver of loan	146	-
(b) NEC Group		
Purchase of handsets	665	4
Purchase of network assets	-	169
Outsourcing expenses	-	56
(c) KM Group		
Mobile telecommunications services income	(5)	(5)
Customary fee and commission expenses	10	17
(d) Essar Group		
Mobile telecommunications services income	(14)	(10)
Roaming arrangement fee income	(4)	-
Roaming cost	1	-
(e) CAT Telecom		
Share of revenue from mobile phone services	218	-
Network operating expenses	45	-
(f) Hinduja Group		
Outstanding expenses for call centre	-	3
(g) NTT Docomo Inc.		
Roaming arrangement fee income	-	(8)
(ii) Key management personnel remunerations:		
Director's fees	2	4
Basic salaries and allowance, benefits-in-kind	9	15
Bonus	12	19
Provident fund contributions	1	1
Share-based payments	-	22
	24	61

36. Subsequent Events

(a) On 2 January 2006, the Group completed the acquisition of 100% shareholding in BPL Mobile Cellular Limited ("BCL"), which operates in the three licence areas of Maharashtra, Tamil Nadu and Kerala in India. Additionally, the Company has agreed to assume the indebtedness owed to BCL by BPL Communications Limited ("BPL"), the then sole shareholder of BCL. This is part of the acquisition of the operations of BPL, for a total consideration of INR50,649 million (approximately HK$8,999 million).

As at 31 December 2005, the unaudited carrying value of the total assets, total liabilities and total contingent liabilities of BCL amounted to approximately HK$1,716 million, HK$4,222 million and HK$40 million, respectively. Goodwill arising from the acquisition will be finalised upon completion of management's assessment of the fair value of identifiable assets and liabilities of BCL.

(b) In February 2006, the Group completed the acquisition of 100% shareholding in Hutchison Tele-Services (India) Holdings Limited ("HTSI"), which operates telecommunications services call centre business in India through its wholly owned subsidiary, 3 Global Services Private Limited ("3GS"), for a total cash consideration of approximately US$14 million (HK$111 million).

As at 31 December 2005, the unaudited carrying value of the total assets and total liabilities of HTSI and its subsidiary amounted to approximately HK$107 million and HK$68 million respectively. Goodwill arising from the acquisition will be finalised upon completion of management's assessment of the fair value of identifiable assets and liabilities of HTSI and its subsidiary.

(c) Following the Indian Government's announcement on the new rules governing foreign direct investment in telecommunications operators in India ("FDI Rules"), the Group undertook a review of its holding structure in advance of and anticipation of a possible listing of Hutchison Essar's shares as well as compliance with the new FDI Rules. Following such review, the Group reorganised its holding structure in Hutchison Essar (the "Reorganisation"). Following the Reorganisation, the Group continues to hold, through wholly owned subsidiary companies, an aggregate direct equity interest of 42.34% of Hutchison Essar. The Group will also continue to hold an indirect interest in Hutchison Essar through certain non-wholly owned subsidiary companies, which hold an aggregate equity interest of 19.54% of Hutchison Essar.

37. US Dollar Equivalents

The US dollar equivalents of the figures shown in the accounts are supplementary information and have been translated at the noon buying rate in New York for cable transfers as certified by the Federal Reserve Bank of New York in effect on 31 December 2005, which was HK$7.75 to US$1.00. 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.

38. Balance Sheet of the Company, Unconsolidated

In accordance with the disclosure requirements of the Companies Ordinance of Hong Kong, the balance sheet of the Company is as follows:

	2004 HK$ millions (Restated)	2005 HK$ millions
ASSETS		
Current assets		
Bank balances	10	111
Other receivable and prepayments	21	2
Amounts due from subsidiary companies (Note a)	671	867
Loans to subsidiary companies (Note b)	20,870	26,079
Total current assets	21,572	27,059
Non-current assets		
Unlisted shares, at costs (Note c)	–	–
Total non-current assets	–	–
Total assets	21,572	27,059
LIABILITIES		
Current liabilities		
Bank loans (Note 24)	1,000	–
Amount due to a related company (Note d)	43	7
Amounts due to subsidiary companies (Note a)	–	172
Accrued expenses and other payables	77	10
Total current liabilities	1,120	189
Non-current liability		
Loan from a subsidiary company (Note e)	–	4,480
Total liabilities	1,120	4,669
EQUITY		
Share capital	1,125	1,188
Reserves (Note f)	19,327	21,202
Total equity	20,452	22,390
Total equity and liabilities	21,572	27,059
Net current assets	20,452	26,870
Total assets less current liabilities	20,452	26,870

Dennis Pok Man LUI
Director

Tim Lincoln PENNINGTON
Director

38. Balance Sheet of the Company, Unconsolidated (continued)

(a) Amounts due from/to subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

(b) Except for loans to subsidiary companies of HK$3,868 million (2004 – Nil) which are unsecured, interest bearing and have no fixed terms of repayment, other loans to subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

(c) As at 31 December 2005, the Company's cost of investment in its subsidiary companies was amounted to HK$25.40 (2004 – 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 2005 are set forth on pages 174 to 175.

(d) The amount due to a related company is unsecured, interest free and repayable on or before 31 December 2006.

(e) The loan from a subsidiary company is secured, interest bearing and not repayable within twelve months from the balance sheet date.

The effective interest rate of the loan from a subsidiary company was 5.41% at the balance sheet date. The fair value of the loan from a subsidiary company as at 31 December 2005 was approximately HK$4,480 million.

(f) Reserves

		Reserves				
	Share capital HK$ millions	Share premium HK$ millions	Accumulated losses HK$ millions	Fair value and other reserves HK$ millions	Subtotal HK$ millions	Total 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 period	-	-	(3)	-	(3)	(3)
At 31 December 2004	1,125	19,330	(3)	-	19,327	20,452

		Reserves				
	Share capital HK$ millions	Share premium HK$ millions	Accumulated losses HK$ millions	Fair value and other reserves HK$ millions	Subtotal HK$ millions	Total shareholders' funds HK$ millions
At 1 January 2005	1,125	19,330	(3)	-	19,327	20,452
Issuance of ordinary shares (Note 28)	63	1,857	-	-	1,857	1,920
Loss for the year	-	-	(35)	-	(35)	(35)
Employee share option scheme-value of services provided	-	-	-	53	53	53
At 31 December 2005	1,188	21,187	(38)	53	21,202	22,390