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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"), and in the form of American Depositary Shares on New York Stock Exchange, Inc. ("NYSE").

The Company and its subsidiaries (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 20 March 2007.

2. Basis of Preparation and 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", which term collectively includes Hong Kong Accounting Standards ("HKAS") and related interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 at 31 December 2006, the Group had net current liabilities of HK$17,268 million (2005 – 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. The Group expects that it will fund the substantial capital required to build, maintain and operate the telecommunications networks through a combination of cash flow from operating activities, proceeds from the sale of its interests in its Indian business and bank borrowings.

(b) Changes in accounting policies

In 2006, the Group adopted the new or revised HKFRS standards below, which are relevant to its operations.

Amendment to HKFRS 4	Insurance contracts – financial guarantee contracts
Amendment to HKAS 21	The effects of changes in foreign exchange rates – Net investment in a foreign operation
Amendments to HKAS 39	Financial instruments: recognition and measurement – financial guarantee contracts – cash flow hedges accounting of forecast intra-group transactions – the fair value option
HKFRS Interpretation 4	Determining whether an arrangement contains a lease
HKFRS Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

2. Basis of Preparation and Principal Accounting Policies (continued)

(b) Changes in accounting policies (continued)

The adoption of the amendment to HKFRS 4, amendments to HKAS 39, HKFRS Interpretation 4 and HKFRS Interpretation 5 did not result in substantial changes to the Group's accounting policies. In summary:

- The amendments to HKFRS 4 and HKAS 39 on financial guarantee contracts introduce a requirement to recognise the fair value of financial guarantees issued under HKAS 39, unless the entity has previously asserted that it regards such contracts as insurance contracts.

- The amendment to HKAS 39 on cash flow hedge accounting of forecast intra-group transactions specifically permits hedge accounting to be adopted in consolidated financial statements in respect of the foreign exchange risk of a highly probable forecast intra-group transaction, but only if the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and if the foreign currency risk will affect consolidated profit or loss.

- The amendment to HKAS 39 on the fair value option restricts the circumstances under which the fair value option in HKAS 39 can be taken advantage of, compared to the original HKAS 39.

- HKFRS Interpretation 4 looks at the question as to whether certain supply arrangements contain in substance a lease that should be recognised by both the lessor and lessee in accordance with HKAS 17 "Leases".

- HKFRS Interpretation 5 considers the situation where an entity is expected to incur costs in the future for decommissioning, restoration and/or environmental rehabilitation and contributes to a fund, which will later cover those costs.

The amendment to HKAS 21 relates to circumstances under which a loan from fellow subsidiaries can be regarded as part of net investment in a foreign operation, hence the exchange differences arising on those loans should be recorded directly in equity. The adoption of the amendment to HKAS 21 has resulted in a change in accounting policy relating to foreign currency translation. The Group's loans to a subsidiary in Indonesia, which are denominated in US dollars, are regarded as part of net investment in a foreign operation and the exchange differences arising on those loans are recorded directly in equity. The effect of this change on income statement, earnings/(loss) per share, capital and reserves attributable to equity holders of the Company, and the minority interest is summarised below:

2. Basis of Preparation and Principal Accounting Policies (continued)

(b) Changes in accounting policies (continued)

(i) Effect on the profit or loss and loss per share for the year ended 31 December 2005 and cumulative effect on various balance sheet items as at 31 December 2005

	Amendment to HKAS 21 HK$ millions
Year ended 31 December 2005:	
Increase in other operating expenses	9
Decrease in profit for the year	(9)
Increase in loss attributable to equity holders of the Company	(9)
Loss per share – basic	HK$(0.00)
Loss per share – diluted	N/A
Net assets as at 31 December 2005	–
Capital and reserves attributable to equity holders of the Company	
Cumulative impact of change in accounting policy as at 1 January 2005	–
Impact of change in accounting policy on the year ended 31 December 2005	
Loss attributable to equity holders of the Company	(9)
Exchange reserve	9
Cumulative impact of change in accounting policy as at 31 December 2005	–
Minority interest as at 31 December 2005	–
Total equity as at 31 December 2005	–

The effect of adoption of the amendment to HKAS 21 is considered not material as at and for the year ended 31 December 2005. Accordingly, no changes have been made to the 2005 comparatives.

2. Basis of Preparation and Principal Accounting Policies (continued)

(b) Changes in accounting policies (continued)

(ii) Effect on the profit or loss and earnings per share for the year ended 31 December 2006 and cumulative effect on various balance sheet items as at 31 December 2006

	Amendment to HKAS 21 HK$ millions
Year ended 31 December 2006:	
Increase in other operating expenses	**14**
Decrease in profit for the year	**(14)**
Decrease in profit attributable to equity holders of the Company	**(14)**
Earnings per share - basic and diluted	**HK$(0.00)**
Net assets as at 31 December 2006	**-**
Capital and reserves attributable to equity holders of the Company	
Cumulative impact of change in accounting policy as at 1 January 2006	**-**
Impact of change in accounting policy on the year ended 31 December 2006	
Profit attributable to equity holders of the Company	**(14)**
Exchange reserve	**14**
Cumulative impact of change in accounting policy as at 31 December 2006	-
Minority interest as at 31 December 2006	**-**
Total equity as at 31 December 2006	**-**

At the date of authorisation of these accounts, the following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended 31 December 2006:

HKFRS 7	Financial instruments disclosures
Amendment to HKAS 1	Presentation of financial statements - capital disclosures
HK(IFRIC) Interpretation 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC) Interpretation 8	Scope of HKFRS 2
HK(IFRIC) Interpretation 9	Reassessment of embedded derivatives
HK(IFRIC) Interpretation 10	Interim reporting and impairment
HK(IFRIC) Interpretation 11	HKFRS 2 - Group and treasury share transactions

The Group did not early adopt any of these new standards, amendments to standards and interpretations. The adoption of these new standards, amendments to standards and interpretations in future periods is not expected to result in substantial changes to the Group's accounting policies.

2. Basis of Preparation and Principal Accounting Policies (continued)

(c) Basis of consolidation

The consolidated accounts made up to 31 December include the accounts of the Company and all of its direct and indirect subsidiaries and also incorporate the Group's interest in associates on the basis set out in Note 2(f) below. Results of subsidiaries and associates 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 subsidiaries 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 acquired, the difference is recognised directly in the income statement.

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 subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Subsidiaries

A company is a subsidiary 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, subsidiaries are accounted for as described in Note 2(c) above. In the unconsolidated accounts of the Company, investments in subsidiaries are stated at cost less provision for impairment losses.

The particulars of the Group's principal subsidiaries as at 31 December 2006 are set forth on page 145.

(e) Minority interest

Minority interest at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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 income statement 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, 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 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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(f) Associates

An investee company is classified as an associate 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 associates are incorporated in the accounts to the extent of the Group's share of the post acquisition results. Investments in associates 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.

(g) 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 has accounted for the BCC as if it is a subsidiary of the Group. The Group has recognised in its accounts 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.

(h) 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 income statement.

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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(h) Foreign currency translation (continued)

(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 income statement 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 income statement 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.

(i) 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 income statement during the period in which they are incurred.

2. Basis of Preparation and Principal Accounting Policies (continued)

(i) Fixed assets (continued)

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.

(j) 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 income statement. All other leases are accounted for as operating leases and the rental payments are charged to the consolidated income statement on a straight-line basis.

(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 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 it operates.

(l) Other intangible assets

(i) 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. Basis of Preparation and Principal Accounting Policies (continued)

(l) Other intangible assets (continued)

(ii) Customer acquisition and retention costs

Costs to acquire or retain telecommunications customers, which are primarily postpaid 3G 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 12-18 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.

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

(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. Brand name and customer base 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	5 - 9 years

(m) 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.

(n) Asset impairment

Assets that have an indefinite useful life are not subject to amortisation, and are tested at least 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. Basis of Preparation and Principal Accounting Policies (continued)

(o) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, 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 assets if they are expected to be realised within 12 months after the balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities within 12 months after the balance sheet date which are classified as current assets.

(iii) 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.

(iv) Derivative financial instruments

Derivatives that do not qualify for hedge accounting under HKAS 39 are accounted for with the changes in fair value being recognised in the income statement.

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. Held-to-maturity investments and 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 income statement 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.

(p) 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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(q) Restricted cash

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

(r) 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 expenses.

(s) 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 income statement.

(t) 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 income statement over the period of the borrowings using the effective interest method except for borrowing costs capitalised for qualifying assets (Note 2(i)).

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.

(u) 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.

(v) 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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(v) Deferred taxation (continued)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, 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.

(w) 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.

(x) 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 unless the probability of outflow of resources embodying economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(y) 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 adjustments for unrecognised actuarial gains or loss and 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 income statement, 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 income statement 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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(y) Employee benefits (continued)

(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, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. 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 income statement, 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.

(z) 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.

(aa) 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.

2. Basis of Preparation and Principal Accounting Policies (continued)

(ab) Interest income

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

(ac) Dilution of interest in subsidiaries or associates

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

(ad) Increase in proportionate share of subsidiaries

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

(i) Foreign currency exposure

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

For overseas subsidiaries and associates and other investments, which consist of non-HK dollar and non-US dollar assets, the Group generally endeavours to establish a natural hedge with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in the local currency are not attractive, the Group may not borrow in the local currency and instead monitor the development of the businesses' cashflow and the debt markets and, when appropriate, would expect to refinance these businesses with local currency borrowings. During the year, the Group recorded an unrealised gain of HK$64 million (2005 – unrealised loss of HK$318 million) on translation of these operations' net assets to the Group's HK dollar reporting currency, which was reflected as a movement in the Group's reserves. Exposure to movements in exchange rates on individual transactions directly related to the underlying businesses is minimised using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist, as described in note 18.

3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

(ii) Interest rate exposure

The Group's main interest risk exposures relate to its borrowings which bear interest at floating rates. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses a combination of interest rate swaps and forward rate agreements to manage its long-term interest rate exposure and exposure to short-term interest rate volatility respectively as described in note 18. As at 31 December 2006, the Group's borrowings which bear interest at floating rates amounted to approximately HK$28,940 million.

(iii) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade and other receivables. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis. For deposits with banks and financial institutions, only accredited banks and financial institutions are accepted.

The average credit period granted by the Group to customers ranges from 30 to 45 days. The utilisation of credit limits is regularly monitored. Debtors who have overdue accounts are requested to settle all outstanding balances before any further credit is granted. Sales of telecommunications products and services to customers are primarily made in cash or via major credit cards. The Group also has sales of handsets in installments (mostly 36 monthly payments via major credit cards). 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 does not have a significant exposure to any individual debtors.

The maximum exposure to credit risk at the reporting date is the fair value of each class of cash and cash equivalents and receivables.

(iv) Cash management and funding

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

(b) 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 cash and cash equivalents, and trade and other 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 Estimates 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, 26(b) and 27(b) contain information about the assumptions 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 mobile and fixed-line telecommunications and network equipment. As at 31 December 2006, the carrying amount of the mobile and fixed-line telecommunications and network equipment is approximately HK$26,786 million. 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 has been decreased by HK$343 million and will be decreased by HK$298 million respectively.

(ii) Income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement 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 judgement 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. As at 31 December 2006, the non-current assets which are subject to asset impairment review amounted to approximately HK$66,124 million.

4. Critical Accounting Estimates 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 carryforwards. The assumptions regarding future profitability of various subsidiaries 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 2006, we had recognised HK$997 million (2005 – HK$918 million) in deferred tax assets.

5. Business Combinations

(a) Acquisition of BPL Mobile Cellular Limited, subsequently renamed Hutchison Essar Cellular Limited ("HECL")

On 2 January 2006, Hutchison Essar Limited ("Hutchison Essar"), a subsidiary of the Company in India, completed the acquisition of 100% shareholding in HECL, which operates in the three licence areas of Maharashtra, Tamil Nadu and Kerala in India, for a consideration of INR11,440 million (approximately HK$1,964 million). Additionally, the Company agreed to assume the indebtedness owed to HECL by BPL Communications Limited ("BPL"), the sole shareholder of HECL prior to the acquisition.

	HK$ millions
Details of net liabilities acquired and goodwill are as follows:	
Purchase consideration (cash paid)	1,964
Less: fair value of net liabilities acquired – shown as below	2,664
Goodwill	4,628

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

	Fair value HK$ millions	Book value HK$ millions
Fixed assets	874	1,405
Other intangible assets – telecommunications licence	264	689
Other intangible assets – brand name and customer base	108	–
Cash and cash equivalents	40	40
Stocks	3	3
Trade and other receivables	259	259
Trade and other payables	(974)	(959)
Borrowings	(3,238)	(3,238)
Net liabilities acquired	(2,664)	(1,801)

The goodwill is attributable to the premium paid for acceleration of the business into the three licence areas of Maharashtra, Tamil Nadu and Kerala in India.

5. Business Combinations (continued)

(b) Acquisition of transmission business of Med-1 I.C.1 (1999) Ltd. ("Med-1")

On 3 July 2006, Partner Communications Company Ltd. ("Partner"), a subsidiary of the Company in Israel, completed the acquisition of the transmission business of Med-1 for a consideration of NIS71 million (approximately HK$124 million). Med-1 is a private company that established a fibre-optic network, a national communication infrastructure deployed throughout Israel, and holds a licence from the Ministry of Communications to supply communication infrastructure services to Israeli companies. This market has a regulatory barrier – its participants have to receive a licence from the Ministry of Communications in Israel to supply communication infrastructure.

	HK$ millions
Details of net assets acquired and goodwill are as follows:	
Purchase consideration (cash paid)	124
Less: fair value of net assets acquired – shown as below	(169)
Negative goodwill recognised directly in the income statement (Note 10)	(45)

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

	Fair value HK$ millions	Book value HK$ millions
Fixed assets	137	246
Other intangible assets – customer base	48	–
Deferred tax liabilities	(16)	–
Net assets acquired	169	246

Partner has negotiated a price which was lower than the fair value of the net assets acquired determined based on the valuation performed by an independent consulting firm, and recognised negative goodwill of HK$45 million (Note 10(iii)), being the excess of the net assets acquired over the purchase consideration, directly in the income statement. The negative goodwill resulted from Med-1 operating in a highly competitive market and lacking the economy of scale enjoyed by its competitors. In addition, Med-1 was limited in its ability to dispose of its transmission business due to the regulatory barrier pertaining to the industry in which it operates.

5. Business Combinations (continued)

(c) Acquisition of Essar Spacetel Private Limited ("Spacetel")

On 5 October 2006, Hutchison Essar completed the acquisition of 100% shareholding in Spacetel, a company that had licence applications for the licence areas of Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir. In December 2006, Hutchison Essar received licences from the Department of Telecommunications of India for six of the licence areas, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir.

	HK$ millions
Details of net liabilities acquired and goodwill are as follows:	
Purchase consideration (cash paid)	43
Less: fair value of net liabilities acquired – shown as below	10
Goodwill	53

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

	Fair value HK$ millions	Book value HK$ millions
Fixed assets	32	32
Cash and cash equivalents	1	1
Trade and other receivables	3	3
Trade and other payables	(46)	(46)
Net liabilities acquired	(10)	(10)

The goodwill is attributable to the premium paid for acceleration of the business into the remaining seven licence areas of Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir where Hutchison Essar is not presently operating.

(d) Impact of business combinations

The business combinations which occurred during the year ended 31 December 2006 ((a) to (c) above) contributed turnover of HK$1,326 million and loss for the period of HK$279 million to the Group. Had the business combinations occurred on 1 January 2005, the results of the Group, which are prepared for information purposes only and do not purport to be indicative of future operating results, would have been as follows:

	2005 HK$ millions	**2006 HK$ millions**
Turnover from continuing operations	25,060	**33,392**
Profit/(loss) for the year from continuing operations	(429)	**1,540**
Profit/(loss) attributable to equity holders of the Company – continuing operations	(753)	**179**
Earnings/(loss) per share from continuing operations attributable to equity holders of the Company: – basic	HK$(0.16)	**HK$0.04**
– diluted	HK$(0.16)	**HK$0.04**

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:

	2005 HK$ millions	2006 HK$ millions
Mobile telecommunications services	20,986	29,271
Mobile telecommunications products	651	1,450
Fixed-line telecommunications services	2,204	2,406
Other non-telecommunications businesses	515	251
	24,356	33,378

7. Segment Information

Segmental information is provided on the basis of primary geographical regions which is the basis on which the Group manages its world-wide interests. The Hong Kong and Macau region is further subdivided into mobile telecommunications and fixed-line telecommunications business segments. Management of the Group measures the performance of its segments based on operating profit. The segment analysis is provided for the Group's continuing operations (see Note 14 for information on discontinued operations). The segment information on turnover, operating profit/(loss), total assets and total liabilities agreed to the aggregate information in the consolidated accounts. As such, no reconciliation between the segment information and the aggregate information in the consolidated accounts is presented.

	As at and for the year ended 31 December 2005							
	Hong Kong and Macau							
	Mobile HK$ millions	Fixed-line HK$ millions	subtotal HK$ millions	India HK$ millions	Israel HK$ millions	Thailand HK$ millions	Others* HK$ millions	Total HK$ millions
Turnover	3,837	2,204	6,041	9,996	6,612	1,045	662	24,356
Operating costs	(3,068)	(1,508)	(4,576)	(6,759)	(4,631)	(1,060)	(880)	(17,906)
Depreciation and amortisation	(1,189)	(618)	(1,807)	(797)	(1,149)	(529)	(85)	(4,367)
Operating profit/(loss) before disposal of investments and others	(420)	78	(342)	2,440	832	(544)	(303)	2,083
Profit/(loss) on disposal of investments and others, net	-	-	-	76	(5)	-	-	71
Operating profit/(loss)	(420)	78	(342)	2,516	827	(544)	(303)	2,154
Other non-cash items included in income statement:								
Write-off of customer acquisition and retention costs	(26)	-	(26)	-	-	(73)	-	(99)
Provision for trade receivables	(3)	(31)	(34)	(242)	(2)	(3)	-	(281)
Share-based payments	-	(18)	(18)	-	(38)	-	(53)	(109)
Total assets	8,117	10,785	18,902	20,363	11,746	5,057	3,523	59,591
Total liabilities	(6,386)	(1,245)	(7,631)	(10,873)	(6,814)	(8,905)	(5,546)	(39,769)
Capital expenditures on								
- fixed assets	415	425	840	2,744	531	282	321	4,718
- other intangible assets	477	98	575	-	-	75	-	650

* *"Others" segment as at and for the year ended 31 December 2005 is comprised of Sri Lanka, Ghana, Indonesia, Vietnam, Corporate as well as the Group's non-telecommunications businesses in Hong Kong, the People's Republic of China, Malaysia and Singapore.*

7. Segment Information (continued)

	As at and for the year ended 31 December 2006							
	Hong Kong and Macau							
	Mobile HK$ millions	Fixed-line HK$ millions	subtotal HK$ millions	India HK$ millions	Israel HK$ millions	Thailand HK$ millions	Others* HK$ millions	Total HK$ millions
Turnover	4,199	2,406	6,605	15,455	9,796	1,017	505	33,378
Operating costs	(2,850)	(1,532)	(4,382)	(10,555)	(6,617)	(960)	(787)	(23,301)
Depreciation and amortisation	(1,102)	(615)	(1,717)	(1,272)	(1,471)	(558)	(58)	(5,076)
Operating profit/(loss) before disposal of investments and others	247	259	506	3,628	1,708	(501)	(340)	5,001
Profit on disposal of investments and others, net	-	-	-	-	44	-	-	44
Operating profit/(loss)	247	259	506	3,628	1,752	(501)	(340)	5,045
Other non-cash items included in income statement:								
Write-off of customer acquisition and retention costs	(26)	-	(26)	-	-	-	-	(26)
Provision for trade receivables	(1)	(36)	(37)	(194)	(54)	(17)	(5)	(307)
Share-based payments	(20)	(19)	(39)	-	(39)	-	(38)	(116)
Impairment on fixed assets	(16)	-	(16)	-	-	-	-	(16)
Total assets	7,986	10,794	18,780	38,172	12,795	5,072	4,899	79,718
Total liabilities	(7,291)	(6,161)	(13,452)	(24,105)	(6,885)	(10,562)	(2,297)	(57,301)
Capital expenditures on								
- fixed assets	284	466	750	7,016	848	112	393	9,119
- other intangible assets	453	32	485	9	1	-	1,341	1,836

* *"Others" segment as at and for the year ended 31 December 2006 is comprised of Sri Lanka, Ghana, Indonesia, Vietnam, Corporate as well as the Group's non-telecommunications businesses in Hong Kong, the People's Republic of China, Malaysia and Singapore up to the date of disposal in July 2006.*

8. Staff Costs

	2005 HK$ millions	**2006 HK$ millions**
Wages and salaries	2,117	**2,339**
Termination benefits	72	**49**
Pension costs		
– defined benefits plans (Note 26(b)(i))	(18)	**12**
– defined contribution plans	39	**36**
Share-based payments		
– equity settled	109	**116**
– cash settled (Note (i) and Note 24)	-	**114**
	2,319	**2,666**

Note (i): On 27 September 2006, Hutchison Essar approved the adoption of the Performance Bonus Right Plan ("PBRP"), an employee retention plan which aims to reward and provide incentives to the prescribed classes of participants who may contribute to the growth and development of Hutchison Essar. The PBRP was subsequently approved by the shareholders of Hutchison Essar at an Extraordinary General Meeting held on 20 October 2006. The PBRP provides the prescribed classes of participants of Hutchison Essar, on each of the vesting dates over a period from January 2007 to April 2009, with the right to receive a cash value equal to the difference between the base price as defined in the PBRP and the exercise price on each vesting date determined based on the EBITDA multiples of two identified major listed telecommunications companies in India, and capped at pre-determined valuations of Hutchison Essar. The unvested balance would be carried over to the next vesting period and may be exercised at the option of the employees at the rate prevailing at the next vesting date or a similar choice would apply. The PBRP will be aborted if there is an initial public offering of Hutchison Essar before any vesting, and the regular Hutchison Essar employee stock option plan ("ESOP") would prevail; any exercise under the PBRP will result in a corresponding reduction in the share options granted to that employee under ESOP.

The fair value of the PBRP is measured at the cash value expected to be settled at each vesting date, and is recorded over the expected vesting period with a corresponding amount recognised as share-based payment liabilities included in current liabilities. These liabilities are reduced when the employees at each vesting date take the option to receive cash. The related expenses of HK$114 million for the year ended 31 December 2006 is recorded in staff costs, and the carrying amount of the liabilities of HK$114 million is recorded as share-based payment liabilities (see Note 24) as at 31 December 2006.

8. Staff Costs (continued)

(a) Directors' emoluments

Name of Director	Fees HK$ millions	Basic salaries, allowance and benefits-in-kind HK$ millions	Bonus HK$ millions	Provident fund contributions HK$ millions	Share-based payments HK$ millions	Total HK$ millions
	Year ended 31 December 2005					
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

Note (a) *Mr Naguib Sawiris and Mr Aldo Mareuse were appointed as directors of the Company on 21 December 2005.*

Note (b) *Mrs Chow Woo Mo Fong, Susan resigned as director of the Company and was appointed as alternate director of Mr Fok Kin-ning, Canning on 21 December 2005.*

Note (c) *Mr Chan Ting Yu resigned as director of the Company and was appointed as alternate director of Mr Dennis Pok Man Lui on 21 December 2005.*

Note (d) *Mr Woo Chiu Man, Cliff was 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.*

Note (e) *Ms Nardi, Kar Wai Agnes was 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.*

Name of Director	Fees HK$ millions	Basic salaries, allowance and benefits-in-kind HK$ millions	Bonus HK$ millions	Provident fund contributions HK$ millions	Share-based payments HK$ millions	Total HK$ millions
	Year ended 31 December 2006					
FOK Kin-ning, Canning	0.37	-	-	-	-	0.37
Dennis Pok Man LUI	0.27	3.59	11.00	0.28	14.12	29.26
Tim Lincoln PENNINGTON	0.27	3.48	2.73	0.61	5.23	12.32
Frank John SIXT	0.27	-	-	-	-	0.27
Naguib SAWIRIS	0.27	-	-	-	-	0.27
Aldo MAREUSE	0.27	-	-	-	-	0.27
KWAN Kai Cheong	0.65	-	-	-	-	0.65
John W STANTON	0.55	-	-	-	-	0.55
Kevin WESTLEY	0.65	-	-	-	-	0.65
	3.57	7.07	13.73	0.89	19.35	44.61

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 2005 and 2006.

8. Staff Costs (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest are as follows:

	2005 Number of individual	2006 Number of individual
Directors of the Company	2	2
Non-directors of the Company		
Executive of the Company	-	1
Directors of certain subsidiaries of the Company	3	2

The aggregate remuneration paid to these highest paid individuals, who are non-directors of the Company, is as follows:

	2005 HK$ millions	2006 HK$ millions
Basic salaries, allowances and benefits-in-kind	8	9
Bonuses	11	14
Provident fund contributions	1	1
Share-based payments	13	11
	33	35

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

	2005 Number of individual	2006 Number of individual
HK$9,500,001 - HK$10,000,000	1	-
HK$10,500,001 - HK$11,000,000	1	2
HK$12,500,001 - HK$13,000,000	1	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 2005 and 2006.

9. Other Operating Expenses

	2005 HK$ millions	2006 HK$ millions
Cost of services provided	8,673	11,668
General administrative and distribution costs	2,087	4,265
Impairment loss on fixed assets	-	16
Loss on disposal of fixed assets	7	15
Write-off of customer acquisition and retention costs	99	26
Operating leases in respect of		
– buildings	729	919
– hire of plant and machinery	458	441
Auditors' remuneration	34	74
Provision for trade receivables	281	307
Exchange (gain)/loss	18	(9)
Others	870	608
	13,256	18,330

10. Profit on Disposal of Investments and Others, Net

	2005 HK$ millions	2006 HK$ millions
Net (loss)/profit on partial disposal of subsidiaries	44	(1)
Negative goodwill on additional equity interests in a subsidiary acquired	27	-
Negative goodwill on acquisition of transmission business	-	45
	71	44

(i) Year ended 31 December 2005

During the period from 20 April 2005 (the deemed acquisition date) to 31 December 2005, the Group's shareholding in Partner was diluted by approximately 0.4% to 51.8% following the exercise of share options held by Partner's option holders, and recorded a loss on partial disposal of a subsidiary of approximately HK$5 million.

On 30 June 2005, Essar Teleholding Limited ("ETH"), a shareholder of Hutchison Essar exercised a call option to acquire approximately 4% of the issued share capital of Hutchison Essar at a price equal to approximately HK$476 million from Usha Martin Telematics Limited ("UMT") and Jaykay Finholding (India) Private Limited ("JKF"), both of which are subsidiaries 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 of approximately HK$49 million.

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 and was recognised directly in the consolidated income statement for the year ended 31 December 2005.

As a result of foregoing, the Group recorded a profit on disposal of investments and others, net, of approximately HK$71 million for the year ended 31 December 2005.

10. Profit on Disposal of Investments and Others, Net (continued)

(ii) Year ended 31 December 2006

During the year ended 31 December 2006, the Group's shareholding in Partner was diluted by approximately 0.7% to 51.1% following the exercise of share options held by Partner's option holders. The Group recorded a loss on partial disposal of a subsidiary of approximately HK$1 million.

In July 2006, Partner completed the acquisition of the transmission business of Med-1 and recorded negative goodwill of HK$45 million (see Note 5(b)).

In July 2006, Hutchison Global Communications Holdings Limited disposed of its 100% interest in Vanda IT Solutions & Systems Management Limited ("VISS") for a consideration of HK$105 million to a wholly owned subsidiary of Hutchison Whampoa Limited ("HWL"). There was no gain or loss arising from the disposal.

As a result of foregoing, the Group recorded a profit on disposal of investments and others, net, of approximately HK$44 million for the year ended 31 December 2006.

11. Interest and Other Finance Costs, Net

	2005 HK$ millions	2006 HK$ millions
Interest income	65	121
Interest and other finance costs		
Bank loans	911	1,496
Other loans repayable within 5 years	37	628
Other loans not wholly repayable within 5 years	1	18
Obligations under finance leases	3	3
Notes and debentures repayable within 5 years	3	-
Notes and debentures not wholly repayable within 5 years	359	139
Amounts due to related companies	92	-
Notional non-cash interest accretion (Note)	149	287
Guarantee and other finance fees	206	210
Net exchange loss on borrowings	-	16
	1,761	2,797
Less: interest capitalised	(5)	(129)
	1,756	2,668
Fair value loss/(gain) on derivative instruments:		
Currency swap	(4)	9
Cross-currency interest rate swap	(5)	4
Forward foreign exchange contracts	(78)	82
	1,669	2,763
Interest and other finance costs, net	1,604	2,642
Capitalisation rate applied to funds borrowed for the funding of assets	2.2% - 4.6%	4.8% - 7.5%

Note: Notional non-cash interest accretion represents the notional adjustments to accrete the carrying amount of certain obligations recognised in the balance sheet such as licence fees liabilities and asset retirement obligations to the present value of the estimated future cash flows expected to be required for their settlement in the future.

12. Share of Results of Associates

	2005 HK$ millions	2006 HK$ millions
Share of profits less losses of associates	173	(1)
Share of interest and other finance costs of associates	(40)	-
Share of taxation charge of associates	(47)	-
	86	(1)

13. Taxation

	Year ended 31 December 2005			Year ended 31 December 2006		
	Current taxation HK$ millions	Deferred taxation HK$ millions	Total HK$ millions	Current taxation HK$ millions	Deferred taxation HK$ millions	Total HK$ millions
Hong Kong	31	6	37	(2)	-	(2)
Outside Hong Kong	198	199	397	898	(70)	828
	229	205	434	896	(70)	826

Hong Kong profits tax has been provided for at the rate of 17.5% (2005 - 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 rates and the Group's tax charge for the years were as follows:

	2005 HK$ millions	2006 HK$ millions
Tax calculated at the domestic rates applicable to profits in the country concerned	1,143	619
Income not subject to taxation	(803)	(278)
Expenses not deductible for taxation purposes	126	115
Recognition of previously unrecognised tax losses of subsidiaries	(729)	(693)
(Over)/under provision in prior year	22	(21)
Tax losses not recognised	673	1,084
Effect of change in tax rate	2	-
Total taxation charge	434	826

The change in average applicable tax rate is caused by a change in the profitability of the Group's subsidiaries in the 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 of América Móvil S.A.. The disposal was subject to regulatory approval and other conditions and was completed on 14 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" and being excluded from the "others" segment of the segment information presented in Note 7.

An analysis of the result of the discontinued operations, and the loss on disposal of discontinued operations, is as follows:

	2005 HK$ millions	**2006** **HK$ millions**
Turnover	60	-
Cost of inventories sold	(11)	-
Staff costs	(9)	-
Depreciation and amortisation	(16)	-
Other operating expenses	(40)	-
Operating loss and loss before taxation	(16)	-
Taxation charge	-	-
Loss of discontinued operations	(16)	-
Loss on disposal of discontinued operations	(336)	-
Loss from discontinued operations	(352)	-
Cash flows used in operating activities	-	-
Cash flows generated from investing activities	190	-
Total cash flows	190	-

The information on the basic and diluted loss per share for the discontinued operations is presented in Note 16.

15. Dividends

The Company did not declare any dividends for the years ended 31 December 2005 and 2006.

As at 31 December 2006, the Group had consolidated accumulated losses of HK$6,915 million (2005 - HK$7,114 million), representing accumulated losses in a majority of the Company's subsidiaries. Under the Company's HK$9 billion credit facility with a group of international banks (Note 25), the Company is restricted in its ability to pay dividends. As at 31 December 2006, HK$5,180 million (2005 - HK$4,858 million) was outstanding under this facility.

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.

Certain of the Company's subsidiaries in Hong Kong and India 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 subsidiaries in Hong Kong and India 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.

	2005	2006
Weighted average number of shares in issue	4,602,460,429	**4,754,324,568**
Profit/(loss) from continuing operations attributable to equity holders of the Company (HK$ millions)	(416)	**201**
Basic earnings/(loss) per share from continuing operations (HK$ per share)	(0.09)	**0.04**
Loss from discontinued operations attributable to equity holders of the Company (HK$ millions)	(352)	**-**
Basic loss per share from discontinued operations (HK$ per share)	(0.08)	**N/A**
Profit/(loss) attributable to equity holders of the Company (HK$ millions)	(768)	**201**
Basic earnings/(loss) per share attributable to equity holders of the Company (HK$ per share)	(0.17)	**0.04**

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 that have been granted under the Company's share option scheme to reflect 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.

	2005	2006
Weighted average number of shares in issue	4,602,460,429	**4,754,324,568**
Adjustment for share options (Note)	-	**18,239,878**
Weighted average number of shares for diluted earnings/(loss) per share	4,602,460,429	**4,772,564,446**
Diluted earnings/(loss) per share from continuing operations (HK$ per share)	(0.09)	**0.04**
Diluted loss per share from discontinued operations (HK$ per share)	(0.08)	**N/A**
Diluted earnings/(loss) per share attributable to equity holders of the Company (HK$ per share)	(0.17)	**0.04**

Note: 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. Accordingly, the weighted average number of shares were not adjusted for the year ended 31 December 2005 for computing the diluted earnings/(loss) per share.

17. Trade and Other Receivables

	Note	2005 HK$ millions	2006 HK$ millions
Trade receivables		4,087	4,472
Less: provision for trade receivables	(a)	(822)	(909)
Trade receivables, net of provision	(a)	3,265	3,563
Other receivables and prepayments	(b)	6,658	6,477
Receivables from related companies (Note 33(iii))		86	50
		10,009	10,090

(a) Trade receivables, net of provision

	2005 HK$ millions	2006 HK$ millions
The ageing analysis of the trade receivables, net of provision for trade receivables is as follows:		
Current	2,442	2,212
31-60 days	347	648
61-90 days	161	173
Over 90 days	315	530
	3,265	3,563

Analysis of provision for trade receivables is as follows:

	2005 HK$ millions	2006 HK$ millions
At the beginning of year	639	822
Relating to subsidiaries acquired	158	54
Relating to subsidiaries disposed of	-	(33)
Charge to other operating expenses	281	307
Write-off during the year	(237)	(294)
Exchange translation differences	(19)	53
At end of year	822	909

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

(b) Other receivables and prepayments

	2005 HK$ millions	2006 HK$ millions
Consideration paid in advance for the acquisition of:		
- HECL and BPL Mobile Communications Limited	3,967	2,820
- Spacetel	44	-
	4,011	2,820
Others (Note)	2,647	3,657
	6,658	6,477

Note: Others comprised, inter alia utilities and sundry deposits, prepaid expenses, prepayment to suppliers, and taxes and duties receivable in India.

17. Trade and Other Receivables (continued)

(b) Other receivables and prepayments (continued)

During the year ended 31 December 2006, the Group completed the acquisition of 100% shareholding in HECL and Spacetel. (Notes 5(a) and 5(c)).

Credit risk associated with the other receivables and prepayments is considered minimal as the amount is refundable in nature if not being utilised. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables and prepayments mentioned above.

18. Derivative Financial Assets and Liabilities

(a) Derivative financial assets

	2005 HK$ millions	**2006 HK$ millions**
Currency swap	–	**13**
Forward foreign exchange contracts	8	**10**
Cross currency interest rate swap	1	**-**
	9	**23**

(b) Derivative financial liabilities

	2005 HK$ millions	**2006 HK$ millions**
Currency swap	107	**145**
Forward foreign exchange contracts	9	**40**
	116	**185**

As at 31 December 2006, the Group has currency swap and forward foreign exchange contracts arrangements with banks to swap Japanese Yen borrowings of JPY101,676 million or HK$6,578 million (2005 – currency swap arrangements of JPY24,195 million or HK$1,595 million) and US dollar borrowings of US$17 million or HK$131 million (2005 – US$22 million or HK$175 million) into Thai Baht borrowings to match currency exposure of the underlying business. In addition, the Group has entered into derivative transactions in order to protect itself against increases in the Israeli Consumer Price Index ("CPI") in respect of CPI-linked notes issued by Partner.

As at 31 December 2005, the Group has a currency and interest rate swap arrangement with a bank to swap floating US dollar borrowings of US$80 million of floating rate at LIBOR + 0.4% per annum into fixed rate Indian Rupees borrowings of INR3,658 million at 4.3% per annum to match currency and interest rate exposure of the underlying business. The arrangement expired in October 2006.

The derivative financial assets and liabilities mentioned above are classified as financial assets at fair value through profit or loss. Accordingly, the fair value of each class of derivative financial assets and liabilities mentioned above is the same as the carrying cost presented above.

19. Fixed Assets

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

	Buildings HK$ millions	Telecom-munications and network equipment HK$ millions	Construction in progress HK$ millions	Others HK$ millions	Total HK$ millions
Cost					
As 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 subsidiaries acquired (Note 29(a))	16	6,971	–	1,771	8,758
Relating to subsidiaries disposed of (Note 29(c))	–	(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)
As at 31 December 2005	210	34,360	1,300	6,315	42,185
Accumulated depreciation and impairment losses					
As at 1 January 2005	27	7,958	–	2,486	10,471
Charge for the year – continuing operations	6	2,303	–	753	3,062
Charge for the year – discontinued operations	–	14	–	2	16
Disposals	–	(577)	–	(120)	(697)
Relating to subsidiaries acquired (Note 29(a))	16	4,418	–	920	5,354
Relating to subsidiaries disposed of (Note 29(c))	–	(95)	–	(26)	(121)
Transfer to other assets	–	(59)	–	(18)	(77)
Transfer between categories	–	16	–	(16)	–
Exchange translation differences	–	(315)	–	(99)	(414)
As at 31 December 2005	49	13,663	–	3,882	17,594
Net book value					
As at 31 December 2005	161	20,697	1,300	2,433	24,591

19. Fixed Assets (continued)

The movement of fixed assets for the year ended 31 December 2006 is as follows:

	Buildings HK$ millions	Telecom-munications and network equipment HK$ millions	Construction in progress HK$ millions	Others HK$ millions	Total HK$ millions
Cost					
As at 1 January 2006	210	34,360	1,300	6,315	42,185
Additions - continuing operations	-	1,349	7,446	324	9,119
Disposals	-	(166)	(1)	(171)	(338)
Relating to subsidiaries acquired (Note 29(a))	44	526	303	33	906
Relating to transmission business acquired (Note 29(b))	-	137	-	-	137
Relating to subsidiaries disposed of (Note 29(c))	(44)	-	-	(61)	(105)
Transfer to other assets	-	(20)	2	(8)	(26)
Transfer between categories	17	6,173	(6,500)	310	-
Exchange translation differences	3	1,180	200	308	1,691
As at 31 December 2006	230	43,539	2,750	7,050	53,569
Accumulated depreciation and impairment losses					
As at 1 January 2006	49	13,663	-	3,882	17,594
Charge for the year - continuing operations	9	2,699	-	931	3,639
Impairment loss for the year	-	16	-	-	16
Disposals	-	(151)	-	(138)	(289)
Relating to subsidiaries disposed of (Note 29(c))	(6)	-	-	(52)	(58)
Transfer to other assets	-	(3)	-	(5)	(8)
Exchange translation differences	1	529	-	183	713
As at 31 December 2006	53	16,753	-	4,801	21,607
Net book value					
As at 31 December 2006	177	26,786	2,750	2,249	31,962

19. Fixed Assets (continued)

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

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

Analysis of the net book value of buildings is as follows:

	2005 HK$ millions	2006 HK$ millions
Hong Kong		
Long leasehold (not less than 50 years)	1	1
Medium leasehold (less than 50 years but not less than 10 years)	55	52
Outside Hong Kong		
Freehold	34	77
Long leasehold	18	18
Medium leasehold	38	-
Short leasehold (less than 10 years)	15	29
	161	177

The fixed assets of the Group held under finance lease arrangements are as follows:

	2005 HK$ millions	2006 HK$ millions
(i) Telecommunications and network equipment held under defeased finance leases		
Cost	3,222	3,252
Accumulated depreciation and impairment losses	(2,639)	(2,772)
Net book value	583	480
Depreciation during the year	126	132
Impairment loss during the year	-	-
(ii) Other assets held under finance leases		
Cost	73	58
Accumulated depreciation and impairment losses	(5)	(9)
Net book value	68	49
Depreciation during the year	5	5
Impairment loss during the year	-	-

20. Goodwill

	Note	2005 HK$ millions	2006 HK$ millions
Gross carrying amount and net book value at beginning of year		6,139	**9,688**
Relating to additional equity interests in subsidiaries acquired	(a)	2,398	**4,736**
Relating to subsidiaries acquired (Note 29(a))		1,822	**4,681**
Relating to subsidiaries partially disposed of		(340)	**(12)**
Relating to subsidiaries disposed of (Note 29(c))		(177)	**-**
Exchange translation differences		(154)	**478**
Gross carrying amount and net book value at end of year		9,688	**19,571**
Accumulated impairment losses at beginning and end of year		-	**-**

(a) Goodwill relating to acquisition of additional equity interests in subsidiaries

(i) Year ended 31 December 2005

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 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 goodwill of HK$2,352 million.

As a result of foregoing, the Group recorded goodwill of HK$2,398 million relating to acquisition of the additional equity interests in subsidiaries for the year ended 31 December 2005.

(ii) Year ended 31 December 2006

In March 2006, the Group reorganised its holding structure in Hutchison Essar (the "Reorganisation") in light of changes in the rules governing foreign direct investment in telecommunications operators in India. Following the Reorganisation, the Group recorded goodwill of HK$1,716 million.

In June 2006, the Group entered into an agreement to acquire an interest in IndusInd Telecom Network Limited (subsequently renamed Omega Telecom Holdings Private Limited), which holds 5.11% in Hutchison Essar, for a total consideration of US$450 million (approximately HK$3,493 million). The Group recorded goodwill of HK$3,020 million.

As a result of foregoing, the Group recorded goodwill of HK$4,736 million relating to the acquisition of additional attributable equity interests in subsidiaries for the year ended 31 December 2006.

20. Goodwill (continued)

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.

	2005 HK$ millions	**2006 HK$ millions**
Hong Kong and Macau		
Mobile telecommunications	1,465	**1,465**
Fixed-line telecommunications	2,385	**2,385**
Subtotal for Hong Kong and Macau	3,850	**3,850**
India	3,782	**13,507**
Israel	870	**945**
Indonesia	932	**1,015**
Multiple units without significant goodwill	254	**254**
	9,688	**19,571**

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 to 2011.

Key assumptions used for value-in-use calculations are:

1. Budgeted earnings before interest, taxation, depreciation and amortisation ("EBITDA") has been based on past performance of the Group's respective CGUs and its expectation for the market development. Management considers EBITDA a proxy for operating cash flow.

2. A long-term growth rate into perpetuity was not used to extrapolate cash flows beyond the budget period. Instead, the management uses EBITDA multiples to determine the terminal value of the Group's respective CGUs.

3. The discount rate applied to cash flows of the Group's respective CGUs is based on pre-tax discount rate and reflects the specific risks relating to the relevant segment. The pre-tax discounted rate applied in the value-in-use calculation is as follows:

Hong Kong and Macau	
Mobile telecommunications	5%
Fixed-line telecommunications	6%
India	8%
Israel	7%
Indonesia	8%

21. Other Intangible Assets

	Telecom-munications licences HK$ millions	Customer acquisition and retention costs HK$ millions	Brand name HK$ millions	Customer base HK$ millions	Total HK$ millions
As at 1 January 2005					
Cost	4,638	728	–	–	5,366
Accumulated amortisation	(1,082)	(425)	–	–	(1,507)
Net book value	3,556	303	–	–	3,859
Year ended 31 December 2005					
Opening net book value	3,556	303	–	–	3,859
Additions	–	650	–	–	650
Write off during the year	–	(99)	–	–	(99)
Relating to subsidiaries acquired (Note 29(a))	2,402	–	726	3,362	6,490
Amortisation for the year	(384)	(533)	(30)	(264)	(1,211)
Exchange translation differences	(238)	(20)	(44)	(205)	(507)
Closing net book value	5,336	301	652	2,893	9,182
As at 1 January 2006					
Cost	7,961	851	682	3,157	12,651
Accumulated amortisation	(2,625)	(550)	(30)	(264)	(3,469)
Net book value	5,336	301	652	2,893	9,182

	Telecom-munications licences HK$ millions	Customer acquisition and retention costs HK$ millions	Brand name HK$ millions	Customer base HK$ millions	Total HK$ millions
Year ended 31 December 2006					
Opening net book value	5,336	301	652	2,893	9,182
Additions	1,351	485	-	-	1,836
Write off during the year	(14)	(26)	-	-	(40)
Relating to subsidiaries acquired (Note 29(a))	264	-	3	105	372
Relating to transmission business acquired (Note 29(b))	-	-	-	48	48
Amortisation for the year	(458)	(394)	(44)	(428)	(1,324)
Exchange translation differences	353	-	63	270	686
Closing net book value	6,832	366	674	2,888	10,760
As at 31 December 2006					
Cost	10,105	1,179	753	3,631	15,668
Accumulated amortisation	(3,273)	(813)	(79)	(743)	(4,908)
Net book value	6,832	366	674	2,888	10,760

21. Other Intangible Assets (continued)

As at 31 December 2006, the estimated aggregate amortisation expense of other intangible assets for each of the five succeeding years is as follows:

	HK$ millions
In the first year	1,403
In the second year	1,453
In the third year	1,370
In the fourth year	1,354
In the fifth year	1,311

22. Other Non-current Assets

	Note	2005 HK$ millions	2006 HK$ millions
Prepaid capacity and maintenance	(a)	1,344	1,425
Other receivables and prepayments	(b)	307	929
Advance payments for network rollout	(b)	–	356
Held-to-maturity debt securities	(c)	–	551
Long-term deposits	(d)	416	451
Loan to a related company (Note 33(iii)(c))		–	117
		2,067	3,829

(a) The movement of prepaid capacity and maintenance is as follows:

	2005 HK$ millions	2006 HK$ millions
Net book value at 1 January	1,238	1,344
Additions	200	181
Amortisation for the year	(94)	(100)
Net book value at 31 December	1,344	1,425

(b) Other receivables and prepayments and advance payments for network rollout are carried at amortised cost. The fair value of other receivables and advance payments for network rollout, which approximates their carrying amount, at the balance sheet date are based on cash flows discounted using a rate based on the borrowing rate of 1.19% to 7.38% per annum (2005 – 5% to 5.4% per annum).

(c) The held-to-maturity debt securities, representing investment in corporate and other bonds, are carried at amortised cost. The corporate and other bonds, and interest thereon, are restricted to be used for repayment of amounts due under the defeased finance lease arrangement. The fair value, determined based on the quoted market price, amounted to approximately HK$693 million. The coupon rates of the corporate and other bonds was zero to 7% per annum.

(d) Long-term deposits are carried at amortised costs, which approximate their fair value as the deposits carry floating interest rates and have an average maturity of 1 to 3 months (2005 – 2 to 3 months). The effective interest rate on long-term deposits as at 31 December was 4.1% to 5.0% per annum (2005 – 3.2% to 3.9% per annum). The long-term deposits are pledged to a bank as collateral to secure a subsidiary's obligations under the defeasance of finance lease and certain performance bonds required by the Office of Telecommunications Authority ("OFTA") in Hong Kong under the terms of the mobile telecommunications licence granted to a subsidiary.

The maximum exposure to credit risk at the reporting date is the fair value of each class of the non-current assets mentioned above.

23. 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:

	2005 HK$ millions	2006 HK$ millions
Deferred tax assets	918	**997**
Deferred tax liabilities	(963)	**(1,075)**
Net deferred tax liabilities	(45)	**(78)**

The gross movement of the deferred tax liabilities/(assets) is as follows:

	Accelerated depreciation allowance HK$ millions	Tax losses HK$ millions	Fair value adjustments arising from business combination HK$ millions	Other temporary differences HK$ millions	Total HK$ millions
As at 1 January 2005	(1,429)	2,125	–	–	696
Net credit/(charge) for the year (Note 13)	824	(1,184)	100	55	(205)
Relating to subsidiaries acquired (Note 29(a))	–	523	(1,104)	–	(581)
Exchange translation differences	(30)	(10)	67	18	45
As at 31 December 2005	(635)	1,454	(937)	73	(45)
As at 1 January 2006	**(635)**	**1,454**	**(937)**	**73**	**(45)**
Net (charge)/credit for the year (Note 13)	**(1,419)**	**1,319**	**134**	**36**	**70**
Relating to transmission business acquired (Note 29(b))	**-**	**-**	**(16)**	**-**	**(16)**
Relating to subsidiaries disposed of (Note 29(c))	**3**	**(3)**	**-**	**-**	**-**
Exchange translation differences	**7**	**5**	**(94)**	**(5)**	**(87)**
As at 31 December 2006	**(2,044)**	**2,775**	**(913)**	**104**	**(78)**

The potential deferred tax assets which have not been recognised in the accounts are as follows:

	2005 HK$ millions	2006 HK$ millions
Arising from unused tax losses	2,578	**2,986**
Arising from depreciation allowances	–	**231**
Arising from other temporary differences	–	**486**

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.

23. Deferred Taxation (continued)

Out of the total unrecognised tax losses of HK$11,068 million (2005 – HK$10,405 million) carried forward, an amount of HK$4,798 million (2005 – HK$6,392 million) can be carried forward indefinitely. The remaining HK$6,270 million (2005 – HK$4,013 million) will expire in the following years:

	2005 HK$ millions	2006 HK$ millions
In the first year	99	385
In the second year	393	1,334
In the third year	1,335	1,343
In the fourth year	1,006	1,303
In the fifth to tenth years inclusive	1,180	1,905
	4,013	6,270

24. Trade and Other Payables

	Note	2005 HK$ millions	2006 HK$ millions
Trade payables	(a)	2,206	2,531
Accrued expenses and other payables		6,270	7,952
Deferred revenue		564	580
Receipts in advance		1,181	1,944
Share-based payment liabilities		–	114
Payables to related companies (Note 33(iii))		153	99
Current portion of licence fees liabilities (Note 26(a))		161	259
		10,535	13,479

(a) Trade payables

The ageing analysis of the trade payables is as follows:

	2005 HK$ millions	2006 HK$ millions
Current	586	1,150
31-60 days	560	504
61-90 days	660	521
Over 90 days	400	356
	2,206	2,531

25. Borrowings

	2005 HK$ millions	2006 HK$ millions
Current		
Bank loans	7,677	13,171
Other loans	11	2,877
Notes and debentures	2	-
	7,690	16,048
Non-current		
Bank loans	14,844	16,044
Other loans	791	3,619
Notes and debentures	3,367	3,706
	19,002	23,369
Total borrowings	26,692	39,417

The maturity of borrowings is as follows:

	2005 HK$ millions	2006 HK$ millions
Bank loans		
Repayable within 5 years	22,521	29,215
Other loans		
Repayable within 5 years	789	6,481
Not wholly repayable within 5 years	13	15
	802	6,496
Notes and debentures		
Repayable within 5 years	2	-
Not wholly repayable within 5 years	3,367	3,706
	3,369	3,706
Total borrowings	26,692	39,417

25. Borrowings (continued)

The non-current borrowings are repayable as follows:

	2005 HK$ millions	2006 HK$ millions
Bank loans		
After 1 year, but within 2 years	1,775	14,683
After 2 years, but within 5 years	13,069	1,361
Other loans		
After 1 year, but within 2 years	14	1,819
After 2 years, but within 5 years	772	1,795
After 5 years	5	5
Notes and debentures		
After 2 years, but within 5 years	1,947	3,398
After 5 years	1,420	308
	19,002	23,369

The Group's borrowings as at 31 December 2005 and 2006 by segment, as well as information regarding maturities and interest expenses for the year ended 31 December 2005 and 2006 in respect of such debt are as follows:

	As at and for the year ended 31 December 2005			
	Current portion HK$ millions	Non-current portion HK$ millions	Total borrowings 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

	As at and for the year ended 31 December 2006			
	Current portion HK$ millions	Non-current portion HK$ millions	Total borrowings HK$ millions	Interest expenses HK$ millions
Hong Kong and Macau				
Mobile telecommunications	-	5,090	5,090	200
Fixed-line telecommunications	2	5,190	5,192	8
India	7,304	8,409	15,713	1,050
Israel	75	4,205	4,280	187
Thailand	8,587	94	8,681	504
Others	80	381	461	335
	16,048	23,369	39,417	2,284

25. Borrowings (continued)

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

	2005 HK$ millions	**2006** **HK$ millions**
Finance lease obligations – minimum lease payments:		
Not later than 1 year	10	**15**
After 1 year, but within 2 years	10	**564**
After 2 years, but within 5 years	15	**8**
After 5 years	–	**5**
	35	**592**
Future finance charges on finance lease obligations	(3)	**(8)**
Present value of finance lease obligations	32	**584**
The present value of finance lease obligations is as follows:		
Not later than 1 year	9	**13**
After 1 year, but within 2 years	9	**562**
After 2 years, but within 5 years	14	**7**
After 5 years	–	**2**
	32	**584**

The Group's outstanding borrowings are denominated in the following currencies:

	2005 HK$ millions	**2006** **HK$ millions**
Hong Kong dollars	6,260	**5,314**
New Israeli Shekel	4,515	**4,258**
Indian Rupees	5,230	**14,631**
Thai Baht	5,421	**1,972**
Japanese Yen	1,595	**6,578**
US dollars	3,626	**6,664**
Singapore dollars	14	**-**
Malaysian Ringgit	15	**-**
Renminbi	16	**-**
	26,692	**39,417**

25. Borrowings (continued)

The Group's borrowings, including interest rates and maturities, are summarised as follows:

	Maturity date	2005 HK$ millions	2006 HK$ millions
Secured bank loans			
Fixed, 7.00% - 7.70% per annum	2007 - 2008	1,257	6,233
Variable, 4.78% - 9.50% per annum	2007 - 2011	12,960	12,130
Unsecured bank loans			
Fixed, 8.92% - 9.05% per annum	2007	27	785
Variable, 1.19% - 8.00% per annum	2007 - 2010	8,277	10,067
Other secured loans			
Finance lease obligations	2007 - 2015	32	584
Fixed, 7.70% - 9.77%	2007	-	2,863
Variable, 6.72% - 10.39% per annum	2008 - 2009	-	3,033
Other unsecured loans			
Fixed, 7.50% per annum	2014	14	12
Variable, 7.37% per annum	2009	756	4
Notes and debentures			
Fixed, NIL% per annum	2006	2	-
Variable, 4.25% per annum	2012	3,367	3,706
Total borrowings		26,692	39,417
Less: total borrowings repayable within twelve months		(7,690)	(16,048)
Total non-current borrowings		19,002	23,369

The fair values of the Group's total borrowings at 31 December 2006 are based on cash flows discounted using the effective interest rates of the Group's total borrowings, excluding obligations under finance lease, ranging from 2.19% to 10.61% (2005 - 2.63% to 8.25%).

The fair values of the Group's total borrowings as at 31 December 2006 were approximately HK$39,321 million (2005 - HK$26,692 million).

As at 31 December 2006, total borrowings of HK$8,042 million (2005 - 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 2006, fixed assets and current assets of certain subsidiaries with a carrying value of HK$27,603 million (2005 - HK$11,520 million) and HK$30,077 million (2005 - HK$6,756 million), respectively were used as collateral for certain of the borrowings. The current portion of borrowings of the Group is secured to the extent of HK$6,594 million (2005 - HK$868 million). The non-current portion of borrowings of the Group is secured to the extent of HK$18,249 million (2005 - HK$16,748 million).

In December 2006, the Group's Thailand operations extended six commercial loan facilities totalling JPY117,530 million and THB5,000 million (together approximately HK$8,833 million) by one year with international lenders. All the Japanese Yen loan drawings and repayments were converted to Thai Baht payments through cross currency swaps and forward foreign currency contracts.

HECL, a subsidiary of the Company acquired during the year, has a facility that as at 31 December 2006 amounted to INR3,590 million (approximately HK$626 million) from non-banking institutions and INR16,331 million (approximately HK$2,848 million) from banks. HECL has during the year entered into a corporate debt restructuring scheme in respect of this facility, which was repayable by 31 December 2006 with an option to repay the dues by way of refinancing, with a group of non-banking institutions and banks ("the lenders"). However, HECL could not refinance the loans due to the non-receipt of confirmation of balance from one of the banks. Accordingly, HECL requested the lenders to extend the repayment date to 31 March 2007 without prepayment penalties or exercising any other rights that the bankers might have exercised. At the approval date of these accounts, no formal decision has been made by the lenders on the extension of the facility.

26. Other Non-current Liabilities

	Note	2005 HK$ millions	2006 HK$ millions
Non-current licence fees liabilities	(a)	1,225	**2,549**
Pension obligations	(b)	12	**15**
Employee retirement obligations		52	**62**
Deferred revenue		30	**30**
Accrued expenses and other payables		14	**336**
		1,333	**2,992**

(a) Licence fees liabilities

	2005 HK$ millions	2006 HK$ millions
Licence fees liabilities – minimal annual fees payments:		
Not later than 1 year	186	**284**
After 1 year, but within 5 years	895	**2,009**
After 5 years	1,446	**2,462**
	2,527	**4,755**
Future finance charges on licence fees liabilities	(1,141)	**(1,947)**
Present value of licence fees liabilities	1,386	**2,808**
The present value of licence fees liabilities is as follows:		
Current portion of licence fees liabilities (Note 24)	161	**259**
Non-current licence fees liabilities:		
After 1 year, but within 5 years	386	**1,446**
After 5 years	839	**1,103**
	1,225	**2,549**
Total licence fees liabilities	1,386	**2,808**

26. Other Non-current Liabilities (continued)

(b) Pension obligations

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 principally contributory final salary pension plans in Hong Kong. As at 31 December 2006, the Group's plans were valued by the independent 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:

	2005	2006
Discount rate applied to defined benefit plan obligations	4.50%	3.75% - 11.00%
Expected return on plan assets	8.00%	8.00%
Future salary increases	3.00% - 4.00%	3.00% - 10.00%
Interest credited on plan accounts	5.00% - 6.00%	5.00% - 6.00%

	2005 HK$ millions	2006 HK$ millions
The amount recognised in the consolidated income statement:		
Current service cost	39	26
Interest cost	11	8
Expected return on scheme assets	(20)	(15)
Gains on curtailments and settlements	(48)	(7)
Total, included in staff costs	(18)	12
The amount recognised in the consolidated balance sheet as at the end of the year:		
Present value of funded plans' obligations	205	193
Present value of unfunded plans' obligations	-	9
Less: fair value of plan assets	(193)	(187)
Liability recognised in consolidated balance sheet	12	15
The limit of net assets to be recognised:		
Cumulative unrecognised net actuarial losses and past service cost	-	-
Present value of available future refunds or reduction in future contribution	11	11
Limit per HKAS 19 paragraph 58/58A/58B	11	11
Net pension liabilities recognised in consolidated balance sheet	12	15
Reduction of net asset due to the limit	-	-
Changes in present value of the defined benefit obligation		
Present value of obligation as at beginning of the year	409	205
Current service cost net of employee contributions	39	26
Actual employee contributions	2	1
Interest cost	11	8
Actuarial losses/(gains) on obligation	(34)	4
Gains on curtailments and settlements	(48)	(7)
Actual benefits paid	(172)	(34)
Net transfer out liabilities	(2)	(1)
Present value of obligation as at end of the year	205	202

26. Other Non-current Liabilities (continued)

(b) Pension obligations (continued)

(i) Defined benefit plans (continued)

	2005 HK$ millions	2006 HK$ millions
Changes in the fair value of the plan assets		
Fair value of plan assets as at beginning of the year	315	**193**
Expected return on plan assets	20	**15**
Actuarial gains on plan assets	13	**16**
Assets distributed on settlements	(120)	**-**
Actual company contributions	17	**5**
Actual benefits paid	2	**(41)**
Net transfer out assets	(52)	**(1)**
Exchange differences	(2)	**-**
Fair value of plan assets as at end of the year	193	**187**
The analysis of the fair value of plan assets at end of the year is as follows:		
Equity instruments	132	**133**
Debt instruments	34	**37**
Other assets	27	**17**
	193	**187**
The experience adjustments are as follows:		
Fair value of plan assets	193	**187**
Present value of funded plans' obligations	(205)	**(193)**
Present value of unfunded plans' obligations	-	**(9)**
	(12)	**(15)**
Experience adjustments on plan assets	12	**15**
Percentage of plan assets (%)	6	**8**
Experience adjustments on plan obligations	(13)	**(12)**
Percentage of plan obligations (%)	6	**6**

The actual return on plan assets during the year ended 31 December 2006 was HK$30 million (2005 – HK$32 million).

The accumulated actuarial losses recognised in the statement of recognised income and expense as at 31 December 2006 was HK$24 million (2005 – HK$28 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 2006. 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.

26. Other Non-current 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 30 June 2006 reported a funding level of 108% of the accrued actuarial liabilities on an ongoing basis. 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 30 June 2009 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 2006, 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 subsidiaries 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$1 million (2005 – HK$3 million) were used to reduce the current year's level of contribution.

27. Share Capital

(a) Share capital of the Company

(i) Authorised share capital of the Company

The authorised share capital of the Company is comprised of 10 billion ordinary shares of HK$0.25 each (2005 – 10 billion ordinary shares of HK$0.25 each) and 1 million preference shares of US$0.01 each (2005 – 1 million preference shares of US$0.01 each).

(ii) Issued share capital of the Company

	Number of shares	Issued and fully paid HK$ millions
Balance at 1 January 2005	4,500,000,000	1,125
Issued during the year (Notes 20(a)(i) and 29(e))	252,546,209	63
Balance at 31 December 2005	4,752,546,209	1,188
Balance at 1 January 2006	4,752,546,209	1,188
Issued during the year (Note 27(b))	13,426,333	3
Balance at 31 December 2006	4,765,972,542	1,191

27. Share Capital (continued)

(b) Share options 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 and 9 February 2006 respectively.

Share options are granted to directors and employees. The exercise price of the granted options is equal to the average market price of the five trading days immediately preceding 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.

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. The movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2005		**2006**	
	Exercise price per share	Options (thousands)	**Exercise price per share**	**Options (thousands)**
As at 1 January	-	-	**HK$8.70**	**76,300**
Granted	HK$8.70	76,300	**-**	**-**
Forfeited	-	-	**HK$8.70**	**(12,417)**
Exercised (Note 27(a))	-	-	**HK$8.70**	**(13,426)**
As at 31 December	HK$8.70	76,300	**HK$8.70**	**50,457**

Of the 50,457 thousand (2005 – 76,300 thousand) outstanding options, 9,424 thousand (2005 – nil) options are exercisable. Options exercised in 2006 resulted in 13,426 thousand (2005 – nil) shares being issued at HK$8.70 each. The related weighted average share price at the time of exercise was HK$16.51 per share. All the share options outstanding at the end of the year are expiring on 7 August 2015.

The weighted average fair value of options granted during 2005 determined using the Black-Scholes valuation model was HK$3.05 at the measurement date. The significant inputs into the model were a share price of HK$8.70, grant date on 8 August 2005, 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 was based on statistical analysis of daily share prices of comparable telecommunication companies over the last three years.

28. 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 2005	19,330	(6,388)	(242)	25	-	12,725
Currency translation differences	-	-	(318)	2	-	(316)
Relating to subsidiaries acquired	1,857	-	-	-	1,233	3,090
Relating to subsidiaries 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 of defined benefits plans	-	42	-	-	-	42
Balance at 31 December 2005	21,187	(7,114)	(441)	117	1,233	14,982
Balance at 1 January 2006, as previously reported	**21,187**	**(7,114)**	**(441)**	**117**	**1,233**	**14,982**
Retrospective adjustment in respect of adoption of the amendment to HKAS 21	**-**	**(9)**	**9**	**-**	**-**	**-**
Balance at 1 January 2006, as restated	**21,187**	**(7,123)**	**(432)**	**117**	**1,233**	**14,982**
Currency translation differences	**-**	**-**	**64**	**1**	**-**	**65**
Profit attributable to equity holders of the Company for the year	**-**	**201**	**-**	**-**	**-**	**201**
Transfer between reserves	**-**	**(4)**	**-**	**4**	**-**	**-**
Employee share option scheme – value of services provided	**-**	**-**	**-**	**96**	**-**	**96**
Issuance of ordinary shares arising from exercise of employee share options	**154**	**-**	**-**	**(41)**	**-**	**113**
Actuarial gains of defined benefits plans	**-**	**11**	**-**	**-**	**-**	**11**
Balance at 31 December 2006	**21,341**	**(6,915)**	**(368)**	**177**	**1,233**	**15,468**

The accumulated losses of the Group include accumulated losses of HK$2 million by associates as at 31 December 2006 (2005 – HK$4 million).

29. Notes to Consolidated Cash Flow Statement

	2005 HK$ millions	2006 HK$ millions
(a) Purchases of subsidiaries		
Net assets acquired		
(excluding cash and cash equivalents):		
Fixed assets (Note 19)	3,404	906
Goodwill (Note 20)	1,822	4,681
Other intangible assets		
- telecommunications licence (Note 21)	2,402	264
- brand name and customer base (Note 21)	4,088	108
Other non-current assets - other receivables	280	-
Associates	-	-
Stocks	168	3
Trade and other receivables	1,303	262
Borrowings (Note (d))	(5,409)	(3,238)
Trade and other payables	(1,574)	(1,020)
Other non-current liabilities	(58)	-
Deferred tax liabilities (Note 23)	(581)	-
Loan from minority shareholders (Note (d))	(3)	-
Minority interest (Note (d))	(1,926)	-
	3,916	1,966
Less: Investments amount held prior to purchase	(1,757)	-
Less: Investments revaluation reserve upon acquisition	(1,233)	-
	926	1,966
Discharged by:		
Cash payment	934	-
Less: Cash and cash equivalents acquired	(8)	(41)
Total net cash consideration	926	(41)
Prepayment for acquisition of subsidiaries	-	2,007
	926	1,966
(b) Purchase of transmission business		
Net assets acquired:		
Fixed assets (Note 19)	-	137
Other intangible assets		
- customer base (Note 21)	-	48
Deferred tax liabilities (Note 23)	-	(16)
	-	169
Discharged by:		
Cash payment	-	124
Negative goodwill recognised directly in the consolidated income statement (Note 5(b))	-	45
	-	169

29. Notes to Consolidated Cash Flow Statement (continued)

	2005 HK$ millions	2006 HK$ millions
(c) Disposal of subsidiaries		
Net assets disposed of		
(excluding cash and cash equivalents):		
Fixed assets (Note 19)	190	47
Goodwill (Note 20)	177	-
Other non-current assets	22	-
Stocks	7	61
Deferred tax assets (Note 23)	-	3
Trade and other receivables	66	250
Borrowings (Note (d))	-	(63)
Trade and other payables	(50)	(273)
Current income tax liabilities	-	(20)
Deferred tax liabilities (Note 23)	-	(3)
Exchange reserve	119	-
Minority interest (Note (d))	(2)	-
	529	2
Loss on disposal of subsidiaries	(336)	-
	193	2
Satisfied by:		
Cash payment	198	105
Less: Cash and cash equivalents disposed of	(5)	(103)
	193	2

	Borrowings HK$ millions	Minority interest HK$ millions	Total HK$ millions
(d) Analysis of changes in financing during the year			
As at 1 January 2005	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	(652)	(151)	(803)
Relating to subsidiaries acquired (Note (a))	5,409	1,929	7,338
Relating to additional interest in subsidiaries acquired	-	(26)	(26)
Relating to a subsidiary disposed of (Note (c))	-	(2)	(2)
Relating to a subsidiary partially disposed of	-	17	17
Equity contribution from minority shareholders	-	312	312
Dividends paid to minority shareholders	-	(70)	(70)
Share of other reserves	-	27	27
Actuarial gains of defined benefits plans	-	5	5
Transfer of loans	4	(4)	-
Net off of loan facility fees	(195)	-	(195)
As at 31 December 2005	26,692	3,652	30,344

29. Notes to Consolidated Cash Flow Statement (continued)

	Borrowings HK$ millions	Minority interest HK$ millions	Total HK$ millions
(d) Analysis of changes in financing during the year (continued)			
As at 1 January 2006	26,692	3,652	30,344
New loans	33,605	-	33,605
Repayment of loans	(25,532)	-	(25,532)
Net cash flows from financing activities	8,073	-	8,073
Minority interest in profit	-	1,375	1,375
Exchange translation differences	1,396	256	1,652
Relating to subsidiaries acquired (Note (a))	3,238	-	3,238
Relating to additional interest in subsidiaries acquired	-	(524)	(524)
Relating to a subsidiary disposed of (Note (c))	(63)	-	(63)
Relating to exercise of share options of a subsidiary	-	67	67
Equity contribution from minority shareholders	-	1,368	1,368
Dividend paid to minority shareholders	-	(266)	(266)
Share of other reserves	-	17	17
Actuarial gains of defined benefits plans	-	1	1
Repayment of loan from minority shareholders	-	(188)	(188)
Amortisation of loan facility fees	81	-	81
As at 31 December 2006	39,417	5,758	45,175

(e) Significant non-cash transactions

During the year ended 31 December 2005, the Group privatised HGCH by way of scheme of arrangement (Note 20(a)(i)). 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.

During the year ended 31 December 2006, the Group capitalised licence fees of HK$1,351 million as telecommunication licences (included in other intangible assets) with the corresponding amount recorded as licence fee liabilities (represented mainly the discounted value of the fixed annual fees to be paid over the licence period).

30. Contingent liabilities

As at 31 December 2006, the Group had contingent liabilities in respect of the following:

(a) performance guarantees amounting to approximately HK$319 million.

(b) a claim against the Group's subsidiary in Israel, together with a motion to certify this claim as a class action, alleging a variety of consumer complaints. The claim to date amounts to approximately HK$1,014 million. At this stage, and until the claim is recognised as a class action, the Group and its legal counsel are unable to evaluate the probability of success of such claim, and therefore no provision has been made. In addition, the Group and its legal counsel are of the opinion that even if the request to recognise this claim as a class action is granted, and even if the plaintiff's arguments are accepted, the outcome of the claim will likely be significantly lower than the abovementioned amount.

(c) claims against the Group's subsidiaries in India in respect of certain taxes (income tax, service tax and Central Excise), duties and other demands under adjudication, dispute and/or appeal. The claims to date amount to approximately HK$251 million. The Group and its legal counsel are vigorously defending all claims. No amounts have been recognised in respect of the contingent liabilities as it is expected that the Group will meet the requisite performance criteria and will be successful in its defence against the claims.

31. Commitments

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

(a) Capital commitments

	Telecommunications mobile network		Telecommunications fixed network	
	2005 HK$ millions	**2006 HK$ millions**	2005 HK$ millions	**2006 HK$ millions**
Contracted but not provided for	3,792	**7,359**	606	**360**
Authorised but not contracted for (Note)	11,787	**10,500**	316	**268**
	15,579	**17,859**	922	**628**

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	
	2005 HK$ millions	**2006 HK$ millions**	2005 HK$ millions	**2006 HK$ millions**
Not later than one year	561	**747**	174	**177**
Later than one year and not later than five years	816	**1,532**	130	**194**
Later than five years	810	**1,569**	57	**87**
	2,187	**3,848**	361	**458**

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

In October 2001, a subsidiary of the Company was issued a 3G licence in the 1900-2200-MHz radio spectrum for Hong Kong ("Licence") for a duration of 15 years. For the first five years of the term of the License, fixed annual licence fees were payable. Beginning from the sixth year of the Licence, variable licence fees payable amount to 5% of network turnover (as defined in the Licence) in respect of the relevant year; or the Appropriate Fee (as defined in the Licence) in respect of the relevant year whichever is greater. The net present value of the Appropriate Fee has already been recorded as licence fees liabilities.

31. Commitments (continued)

(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 provision of telecommunications 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 licensee in respect of interconnection, payments for roaming services to foreign operators and expenses related to the sale of equipment. From 1 January 2006, the rate of royalty payments paid by cellular operators will be reduced annually by 0.5% until it reaches 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.

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

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

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

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

The Group holds call options, both directly and indirectly, which, if exercised, would entitle the Group to additional equity interests in the non-wholly owned investment holding companies in India through which the Group holds indirect interests in the Group's Indian operating companies, in each case subject to applicable regulatory approvals. Conversely, some Indian shareholders hold put options that could, again subject to applicable regulatory approvals, require the Group to purchase additional equity interests in those investment holding companies. Some of the call and put options are exercisable at fair market value of the investment holding companies to be determined or agreed by the parties (and if no agreement is reached, as determined in accordance with a pre-agreed formula or by a specified independent investment bank, as the case may be) at the time of exercise of the relevant option. Other call and put options are exercisable at a price determined in accordance with a formula specified in the relevant options agreement.

32. Substantial Shareholders

As at 31 December 2006, the Company is owned as to 49.7% (2005 – 49.8%) by HWL and 19.3% (2005 – 19.3%) 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.

33. Related Party Transactions

For the purposes of these accounts, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group 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 parties of the Group where those parties are individuals.

Related Party Group:

- Hutchison Group – HWL together with its direct and indirect subsidiaries.

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Transactions between the Group and other related parties during the year are summarised below:

(i) Key management personnel remuneration

No transaction has been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel remuneration) as disclosed in Note 8(a).

(ii) Transactions with Hutchison Group:

	2005 HK$ millions	2006 HK$ millions
Provision for fixed telecommunications and other services	(72)	(68)
Provision for mobile telecommunications services income	(19)	(22)
Rental expenses on lease arrangements	72	57
Bill collection services fee expenses	11	11
Roaming arrangement fee income	(1)	(3)
Sharing of services arrangements	30	29
Dealership services fee expenses	11	21
Global procurement services arrangements expense	26	26
Provision of data center services	(17)	(19)
Purchase of handset and accessories	965	1,239
Purchase of office supplies	6	7
Advertising and promotion expenses	6	17
Guarantee and other finance fees	142	95
Interest expense on amounts due to related companies	92	-
Interest income on non-current amount due from a related company	-	(6)

(iii) Balances with Hutchison Group:

		2005 HK$ millions	2006 HK$ millions
Receivables from related companies	(a)	86	50
Payables to related companies	(b)	(153)	(99)
Non-current amount due from a related company	(c)	-	117

33. Related Party Transactions (continued)

(iii) Balances with Hutchison Group: (continued)

(a) The receivables from related companies are unsecured, interest free and repayable on demand.

(b) The payables to related companies arose during the ordinary course of business are unsecured, interest free and repayable on demand.

(c) As at 31 December 2006, the non-current amount due from a related company of HK$117 million arose from a loan to Hutchison Call Centre Holdings Limited ("HCCHL"), a subsidiary of HWL, which is unsecured and bears interest at LIBOR plus 1% per annum. HCCHL holds a call option while the Group holds a put option exercisable between 3 to 5 years from March 2006, which if exercised, would entitle HCCHL to acquire the business owned by 3 Global Services Private Limited ("3GS"), a subsidiary of the Group, at an exercise price based on the aggregate of the consideration paid for the acquisition of Hutchison Tele-Services (India) Holdings Limited ("HTSI") from HCCHL and investment cost plus interest accrued and after deduction of any distribution made by HTSI for the period from the date of acquisition to the date of transfer of the 3GS business. The loan is repayable upon the exercise of the said call/put options, or if the options were not exercised during the exercise period, the said loan together with the accrued interest income will be accounted for as the consideration for the acquisition of HTSI upon expiry of the options.

34. Subsequent Events

(a) Disposal of the Company's Indian mobile telecommunications operation (the "Sale Group")

On 11 February 2007, the Company entered into an agreement to sell its entire direct and indirect equity and loan interests, held through subsidiaries, in the Sale Group to Vodafone International Holdings B.V., a wholly owned subsidiary of Vodafone Group Plc, for a cash consideration of approximately US$11,080 million (approximately HK$86,570 million) (the "Transaction"). The Transaction is conditional on the Company's shareholders' approval and Indian regulatory approvals. The Transaction was subsequently approved by the Company's shareholders at an extraordinary general meeting held on 9 March 2007.

Subsequently, ETH and certain affiliates ("Essar") have asserted various rights in relation to the Transaction and have threatened to commence proceedings in the Indian courts in order to enforce those alleged rights, including by preventing completion of the Transaction. On 15 March 2007, the Company entered into a conditional settlement agreement (the "Settlement Agreement") with Essar pursuant to which Essar agreed to, amongst others: (i) refrain from doing anything which would prevent, delay or inhibit completion of the Transaction; (ii) use all reasonable endeavours to ensure completion of the Transaction is achieved as soon as practically possible; (iii) waive rights it has or claims to have in respect of certain matters including those related to the Transaction; and (iv) terminate certain agreements, alleged agreements and understandings relating to the relationship connected to Hutchison Essar. In consideration, and subject to completion of the Transaction and obtaining the approval of its shareholders, the Company agreed to make scheduled payments aggregating US$415 million (approximately HK$3,243 million) before interest.

Upon completion of the Transaction and payment under the Settlement Agreement, the Group is expected to realise an estimated pre-tax gain of approximately US$9,195 million (HK$71,847 million) and net cash inflow of approximately US$10,585 million (HK$82,708 million).

(b) Petition alleging breach of Foreign Direct Investment regulations (the "FDI Regulations") in India

On 7 March 2007 the Company received a copy of a petition (the "Petition") that had been filed with the High Court of Delhi in India naming the Company, Hutchison Essar, the Indian government and various other Indian parties as respondents. The Petition alleged, amongst others, that by virtue of the Company's arrangements with certain Indian shareholders of Hutchison Essar, its foreign shareholding in Hutchison Essar was in breach of the FDI Regulations. The Petition requested that Hutchison Essar's telecommunications licence be cancelled, investigations and proceedings against various parties for violation of Indian regulations be instituted and shares in Hutchison Essar held in breach of the FDI Regulations be confiscated. On 9 March 2007 the court adjourned the hearing of the Petition indefinitely, noting that the issues raised in the Petition were already being considered by competent Indian governmental authorities. The court also declined to require any of the respondents, including the Company and Hutchison Essar, to respond to the Petition. The Company considers that the Petition is entirely without merit and will take all necessary actions to vigorously defend the groundless allegations made against the Company and Hutchison Essar.

35. 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 29 December 2006, which was HK$7.78 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.

36. Balance Sheet of the Company, Unconsolidated

	2005 HK$ millions	**2006 HK$ millions**
ASSETS		
Current assets		
Cash and cash equivalents	111	**14**
Other receivables and prepayments	2	**4**
Amounts due from subsidiaries (Note (b))	867	**216**
Loans to subsidiaries (Note (c))	26,079	**19,005**
Total current assets	27,059	**19,239**
Non-current assets		
Investments in subsidiaries, at costs (Note (d))	-	**3,400**
Total assets	27,059	**22,639**
LIABILITIES		
Current liabilities		
Amount due to a related company (Note (b))	7	**-**
Amounts due to subsidiaries (Note (b))	172	**94**
Accrued expenses and other payables	10	**22**
Total current liabilities	189	**116**
Non-current liabilities		
Loan from a subsidiary (Note (e))	4,480	**-**
Total liabilities	4,669	**116**
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital (Note 27)	1,188	**1,191**
Reserves (Note (f))	21,202	**21,332**
Total equity	22,390	**22,523**
Total equity and liabilities	27,059	**22,639**
Net current assets	26,870	**19,123**
Total assets less current liabilities	26,870	**22,523**

Dennis Pok Man LUI
Director

Tim Lincoln PENNINGTON
Director

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

(a) The Company was incorporated in the Cayman Islands on 17 March 2004 as a company with limited liability.

(b) Amounts due from/to subsidiaries and a related company are unsecured, interest free and repayable on demand.

(c) As at 31 December 2006, the loans to subsidiaries are unsecured, interest free and repayable on demand. As at 31 December 2005, except for loans to subsidiaries of HK$3,868 million which were unsecured, interest bearing and repayable on demand, other loans to subsidiaries were unsecured, interest free and repayable on demand.

(d) In 2006, the Company injected HK$3,400 million as additional share capital into a wholly owned subsidiary, increasing the Company's cost of investment in its subsidiaries from HK$25 to HK$3,400 million. As at 31 December 2005, the Company's cost of investment in its subsidiaries amounted to HK$25. The investment costs as at 31 December 2005 were rounded down to zero in the Company's balance sheet.

(e) The loan from a subsidiary was secured, interest bearing and not repayable within twelve months from the balance sheet date. The effective interest rate on the loan from a subsidiary was 5.41% at the balance sheet date. The fair value of the loan from a subsidiary as at 31 December 2005 was approximately HK$4,480 million.

(f) Reserves

	Share premium HK$ millions	Accumulated losses HK$ millions	Fair value and other reserves HK$ millions	Total HK$ millions
As at 1 January 2005	19,330	(3)	-	19,327
Issuance of ordinary shares (Note 28)	1,857	-	-	1,857
Loss for the year	-	(35)	-	(35)
Employee share option scheme – value of services provided	-	-	53	53
As at 31 December 2005	21,187	(38)	53	21,202
As at 1 January 2006	**21,187**	**(38)**	**53**	**21,202**
Issuance of ordinary shares arising from exercise of employee share options (Note 28)	**154**	**-**	**(41)**	**113**
Loss for the year	**-**	**(60)**	**-**	**(60)**
Employee share option scheme – value of services provided	**-**	**-**	**77**	**77**
As at 31 December 2006	**21,341**	**(98)**	**89**	**21,332**