The Group's consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") which differs in some respects from US GAAP. The effect on net income attributable to equity holders of the Company and shareholders' equity arising from significant differences between HKFRS and US GAAP is as follows.

		2005 HK$ millions	2006 HK$ millions	2006 US$ millions
(Loss)/profit attributable to equity holders of the Company under HKFRS		(768)	201	26
Adjustments:				
Revenue recognition	(a)	88	62	8
Customer acquisition and retention costs	(b)	61	(65)	(8)
Business combinations	(c)	(163)	(419)	(54)
Termination benefits	(e)	(12)	(4)	-
Onerous contracts	(f)	(16)	(15)	(2)
Pension cost	(g)	(67)	(1)	-
Share-based payments	(h)	(28)	-	-
Others	(i)	37	(9)	(1)
Deferred taxation	(j)	(24)	(103)	(14)
Minority interest		(23)	(140)	(18)
Loss attributable to equity holders of the Company under US GAAP		(915)	(493)	(63)
Loss per share attributable to equity holders of the Company				
– basic		HK$(0.20)	HK$(0.10)	US$(0.01)
– diluted		HK$(0.20)	HK$(0.10)	US$(0.01)
Shareholders' equity under HKFRS		16,170	16,659	2,141
Adjustments:				
Revenue recognition	(a)	80	143	18
Customer acquisition and retention costs	(b)	(282)	(348)	(45)
Business combinations	(c)	(1,014)	(1,488)	(191)
Reversal of goodwill amortisation expense	(c)	65	65	8
Impairment of goodwill	(d)	(719)	(719)	(92)
Termination benefits	(e)	7	3	-
Onerous contracts	(f)	54	39	5
Pension cost	(g)	(37)	(30)	(3)
Others	(i)	101	98	13
Deferred taxes	(j)	(747)	(863)	(111)
Minority interest		2	(210)	(27)
Shareholders' equity under US GAAP		13,680	13,349	1,716
Exchange translation adjustments	(k)	(27)	(170)	(22)

The increases or decreases noted above refer to the following differences between HKFRS and US GAAP:

(a) Revenue recognition

Under HKFRS, connection and installation fees are recognised as revenue when the installation or connection takes place. Under US GAAP, revenues from connection and installation fees and any other up-front fees are deferred and recognised over the expected customer relationship period.

Under HKFRS, there is no technical guidance on the accounting of multiple element contracts. Revenue allocation to sales of handsets and services is based on the respective values as stated in the subscribers' contracts.

Under US GAAP, the Group adopted EITF 00-21 on "Revenue Arrangements with Multiple Deliverables", which addresses the accounting, by a vendor, for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. EITF 00-21 also addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. The fair value method is used when allocating the revenue for each unit of accounting. The amount allocated to the delivered item, i.e. handsets, is limited to the amount that is not contingent on the delivery of additional items or meeting other specific performance conditions. This resulted in different amounts being allocated to the handsets between HKFRS and US GAAP.

(b) Customer acquisition and retention costs

Under HKFRS, as described in Note 2(l)(ii), certain customer acquisition and retention costs, comprising handset subsidies, sales commission and other direct costs for acquisition and retention purposes, are capitalised and amortised over the minimum enforceable contractual period. In the event a customer ends its relationship before the costs have been fully amortised, the unamortised acquisition and retention costs are written off.

Under US GAAP, direct incremental customer acquisition and retention costs are deferred and amortised over the average customer relationship period to the extent of deferred revenue with any excess costs expensed as incurred.

(c) Business combinations

(i) Under HKFRS, prior to 1 January 2004, the excess of the cost of acquisition over the fair value of the Group's share of net assets of the acquired subsidiary company, associated company and joint venture entity is recognised as goodwill. From 1 January 2004, with the early adoption of HKFRS 3, the excess of cost directly attributable to the business combination over the Group's share of fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. Under US GAAP, starting 1 January 2002, goodwill was no longer subject to amortisation but is tested for impairment annually, as well as when there are indicators of impairment. Such change was also made under HKFRS effective 1 January 2004. Intangible assets acquired in a business combination have been limited to those assets that can be identified and controlled and for which future economic benefits attributable to the asset will probably flow to the entity and whose fair value can be measured reliably. In the event the criteria cannot be met, intangibles are not recognised and the corresponding amount will be included as part of goodwill.

Under US GAAP, the cost of the acquisition is allocated to the proportionate share of fair value of acquired assets and liabilities, including separately identifiable intangibles if it satisfies either the "contractual-legal" or "separability" criterion. Any excess cost of the acquisition is recognised as goodwill. Intangibles are amortised over their estimated useful lives. The adjustment made to intangible assets is mainly attributable to licences from the acquired subsidiary company, approximately amounting to HK$2,775 million (2005 – HK$3,002 million).

(ii) In February 2005, the Group's various interests in India were reorganised under Hutchison Essar, the Group's mobile telecommunications operator in Mumbai (the "India Restructuring"). Prior to the India Restructuring, the Group's effective interest in the six India operating entities ranged from 49% to 74%. Subsequent to the India Restructuring, Hutchison Essar owned 100% of the equity interest in the other five India operating entities and the Group held an effective interest of 56% in Hutchison Essar (the Group's effective interest has subsequently changed to 53% and 54% in June and October 2005 respectively). Under both HKFRS and US GAAP, the reorganisation of the interest that was held by the Group was accounted for as a transaction amongst entities under common control. Under HKFRS, changes in the non-controlling interests of the Group were accounted for at their carrying value and the excess of consideration given up over the carrying value of the non-controlling interest acquired was recorded as goodwill. Under US GAAP, the acquisition of the non-controlling interests of the Group was accounted for using the purchase method, resulting in the percentage of assets and liabilities acquired being recorded at their fair value.

In July 2005, the Group privatised HGCL, which holds the Group's Hong Kong fixed-line business, by way of scheme of arrangement (the "HGCL privatisation"). Part of the consideration was settled by issuance of shares. Under HKFRS, the HGCL privatisation was considered as a transaction amongst entities under common control. The Group has accounted for the additional interests acquired at their carrying value at the date of the transaction and the excess of consideration given up over the carrying value of minority interests acquired being recorded as goodwill. Under US GAAP, this transaction was an acquisition of non-controlling interests in subsidiaries and was accounted for using the purchase method, resulting in fair value adjustments being made to tangible assets and recognition of intangible assets. There is also a difference between HKFRS and US GAAP in the cost of acquisition. Under HKFRS, shares issued as consideration are recorded at their fair value as at the date of the exchange, the date that the Group is legally obliged to deliver cash or shares to the minority shareholders and the minority shareholders are legally obliged to give up their shares in HGCL in return, i.e. the date when all the conditions that might prevent the transaction from proceeding have been met. Under US GAAP, shares issued as consideration are measured at their market price over a reasonable period of time before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The difference in the cost of acquisition resulted in a lower amount of goodwill of HK$56 million recorded under US GAAP.

For the India Restructuring and the HGCL privatisation, details of net assets acquired and goodwill under US GAAP are as follows:

	2005	
	India Restructuring HK$ millions	HGCL Privatisation HK$ millions
Purchase consideration	346	2,339
Less: Carrying value of minority interest acquired	200	57
Less: Fair value of net assets acquired – shown as below	103	363
Goodwill	43	1,919

The fair values of net assets acquired are as follows:

	India Restructuring HK$ millions	HGCL Privatisation HK$ millions
Property, plant and equipment, net	(53)	440
Customer contracts and customer relationships	85	–
Distribution networks and direct sales associates relationship	45	–
Licences	17	–
Other assets	3	–
Deferred tax assets /(liabilities)	6	(77)
	103	363

In April 2005, the Group's shareholding in Partner increased from 42.9% to 52.2% following the completion of a buyback of shares by Partner from certain of its shareholders. The Group is deemed to have acquired an additional 9.3% of the issued share capital of Partner and resulted in a consolidation of Partner as a subsidiary company. This transaction was accounted for using the purchase method under both HKFRS and US GAAP. Under HKFRS, all the assets and liabilities were fair valued, resulting in the differences between the fair value and book value of the portion of interests held prior to the transaction being included in the investment revaluation reserves. Under US GAAP, only the additional interest acquired is stepped up to its fair value, with minority interest recorded at historical costs.

(iii) In March 2006, the Group reorganised its holding structure in Hutchison Essar in light of the changes in the rules governing foreign direct investment in telecommunications operators in India. In June 2006, the Group acquired an interest in IndusInd Telecom Network Limited, subsequently renamed Omega Telecom Holdings Private Limited. As a result of these transactions, the Group held a 37.25% equity interest in an investment holding company holding a 19.54% equity interest in Hutchison Essar and a 45.79% equity interest in an investment holding company holding a 5.11% equity interest in Hutchison Essar. Under HKFRS, both transactions were accounted for as transactions amongst entities under common control whereby changes in the non-controlling interests of the Group were accounted for at their carrying value and the excess of consideration given up over the carrying value of the non-controlling interest acquired was recorded as goodwill. Under US GAAP, the acquisitions of the non-controlling interests of the Group were accounted for using the purchase method, resulting in the percentage of assets and liabilities acquired being recorded at their fair value.

	2006 India Acquisitions HK$ millions
Purchase consideration	5,260
Less: Carrying value of minority interest acquired	524
Less: Fair value of net assets acquired – shown as below	651
Goodwill	4,085

The fair values of net assets acquired are as follows:

	India Acquisitions HK$ millions
Property, plant and equipment, net	(248)
Customer contracts and customer relationships	628
Distribution networks and direct sales associates relationship	316
Licences	(19)
Other assets	5
Deferred tax liabilities	(31)
	651

On 3 July 2006, Partner completed the acquisition of the transmission business of Med-1, a private company that has laid a submarine fibre-optic network and holds a licence to provide data communications services in Israel, for a consideration of NIS71 million (approximately HK$124 million). The acquisition is accounted for as a business combination under both HKFRS and US GAAP. The transaction generates an amount of HK$45 million, derived from the fair value of net assets acquired in excess of the purchase consideration, being recorded as negative goodwill under HKFRS, which was directly credited to the income statement. Under US GAAP, in the event where the fair value of net assets acquired exceeds the purchase consideration, the excess should be allocated as a pro rata reduction in the amounts that would have been assigned generally to all the acquired assets except financial assets, other current assets or deferred tax assets. Details of the allocation of net assets under US GAAP are as follows:

	2006 Acquisition of Med-1 HK$ millions
Purchase consideration	124
Less: Fair value of net assets acquired – shown as below	124
Goodwill	-

The fair values of net assets acquired are as follows:

	Acquisition of Med-1	
	Fair value Before pro rata reduction HK$ millions	Fair value After pro rata reduction HK$ millions
Fixed assets	137	92
Other intangible assets – customer base	48	32
	185	124

As discussed in Note 5(c), on 5 October 2006, Hutchison Essar completed the acquisition of its 100% shareholding in Spacetel, a company that had licence applications in certain areas within India. The acquisition is considered a business combination under HKFRS while it is considered an asset acquisition under US GAAP as Spacetel had not commenced its planned principal operation or services. As a result, the excess of the purchase consideration over the fair value of net assets acquired of HK$53 million is recorded as goodwill under HKFRS but under US GAAP an amount of HK$81 million is capitalised as licence, i.e. an intangible asset, with a corresponding amount of HK$28 million recorded as deferred tax liabilities. The licence cost would be amortised over the contractual period of 20 years. For the year ended 31 December 2006, amortisation has not been commenced since the networks for the related licenced areas were yet to be launched.

(d) Impairment of goodwill

Under HKFRS, the Group will perform an impairment review to ensure its goodwill and other long-lived assets are carried at no more than their recoverable amount if there is an indication of impairment, or at least annually for goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use, based on present value calculations. The value in use test is performed for each cash-generating unit identified. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows from other assets or groups of assets. The cash generating unit can be a level or levels above the reporting unit, the reporting unit, or a level or levels below the reporting unit.

Under US GAAP, the Group performs an annual impairment test for goodwill based on the fair value of the operating segment or one reporting level below the operating segment. The fair value of the reporting unit is allocated to its assets and liabilities, including any unrecognised intangible assets. The remaining fair value for the reporting unit is the implied fair value of the goodwill. This implied fair value of goodwill is compared to its carrying amount on an annual basis to determine if there is a potential impairment. If the implied fair value of the goodwill is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value is less than its carrying value.

(e) Termination benefits

Under HKFRS, termination benefits are recognised when there is a legal or constructive obligation to pay the benefits. Constructive obligation exists when a termination plan has been prepared and management could have raised a valid expectation in those affected that the plan will be carried out by either starting to implement or announcing the plan.

US GAAP requires employers to recognise the obligation to provide post-employment benefits if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. However, termination benefits are only recognised when the termination plan has been communicated to employees.

(f) Onerous contracts

Under HKFRS, the present obligation under an onerous contract should be recognised and measured as a provision. An onerous contract is defined as a contract under which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Under US GAAP, a liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit should be recognised and measured at its fair value when the rights conveyed by the contract ceased to be used.

(g) Pension cost

Under HKFRS, as described in Note 2(y)(i), 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.

Under US GAAP, the unrecognised actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the greater of the assets of the scheme and the defined benefit obligations over the average expected future working lifetime of the Group's employees.

Under US GAAP, during the year ended 31 December 2006, the Group adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires an entity to recognise in its balance sheet an asset for a defined benefit pension or postretirement plan's over-funded status or a liability for a plan's under-funded status, and to recognise changes in that funded status through other comprehensive income in the year in which the changes occur. SFAS 158 does not change the amount of net periodic benefit expense recognised in our results of operations. The adopting of this standard result in a net decrease in other non-current liabilities of HK$25 million and an increase in accumulated other comprehensive income of HK$20 million as at 31 December 2006. Our plans' under-funded status was HK$12 million at 31 December 2005 and HK$15 million at 31 December 2006 respectively. The fair value of our plans' assets is changed from HK$193 million at 31 December 2005 to HK$187 million as of 31 December 2006.

We regularly review our actual asset allocation and the pension plans' investments are periodically rebalanced to our targeted allocation when considered appropriate.

At 31 December 2006, we have unrecognised net actuarial gains of HK$25 million related to our defined benefit pension plans. These gains will be recognised as a component of pension income or expense in future years. Our estimated 2007 expense related to our defined benefit pension plans of HK$14 million includes the recognition of approximately HK$1 million of these gains.

Under HKFRS, provision for severance payments in Thailand is accounted for under the actuarial method.

Under US GAAP, provision for severance payments in Thailand is accounted for under the gross method since the actuarial value of benefits on immediate termination exceeds the actuarial value of benefits at the expected date of separation.

(h) Share-based payments

Under HKFRS, as described in Note 2(y)(ii), share-based payments expense is determined by reference to the fair value of the options granted. In accordance with HKFRS 2, the Group applied this HKFRS to share options that were granted after 7 November 2002 and had not yet vested at 1 January 2005.

Under US GAAP, the Group has early adopted SFAS No.123R "Share-Based Payment" from 1 January 2005. SFAS 123R replaces FASB statement No.123, "Accounting for Stock-Based Compensation" and supersedes APB No.25 "Accounting for Stock Issued to Employees". SFAS No.123R requires the compensation cost relating to share-based payment transactions be recognised in the financial statements. That cost will be measured based on fair value of the equity or liability instruments issued. Under US GAAP, share options that were granted after 7 November 2002 and vested before 1 January 2005 were accounted for based on APB No.25. Share options that were unvested as at 1 January 2005 were measured in accordance with the transitional provisions of SFAS No.123R. The Group used the modified prospective transition method as specified in the standard.

(i) Others

Other differences between HKFRS and US GAAP include:

(i) Capitalisation of interest expense

Under HKFRS, interest costs incurred prior to the date the qualifying asset is ready for its intended use are capitalised as construction in progress to the extent that the borrowings are identified as being related to the acquisition of the qualifying asset.

Under US GAAP, interest costs incurred prior to the qualifying asset being ready for its intended use that could have been avoided if the expenditures for the qualifying asset had not been made are capitalised as construction in progress.

(ii) Telecommunication spectrum licences

Under HKFRS, licence fee payments made in India before 1999 were recorded as period costs. Under US GAAP, licence fee payments made in India before 1999 were capitalised and amortised over the remaining licence period.

Under US GAAP, interest costs incurred prior to the launch of the network were also capitalised as part of licence, which were expensed under HKFRS.

Subsequent to 1999, licence fees in India became variable and the payments made were recorded as period costs under both HKFRS and US GAAP.

(iii) Sale and leaseback transaction

In 1998, the Group entered into a sale and leaseback transaction for certain of its mobile telecommunication assets. Under HKFRS, this transaction was accounted for as a defeased lease and, thus, the assets subject to the sale and leaseback arrangement have been accounted for as a financing lease. The arrangement for the financial assets transferred to a third party in exchange for payment of liabilities was considered meeting the criteria for offset under HKAS32 and therefore the related assets and liabilities have been presented on the balance sheet on a net basis.

Under US GAAP, the mobile telecommunication assets and related depreciation expense subject to this arrangement are recorded at their historical cost. A portion of the underlying assets has been impaired during the year ended 31 December 2004. Accordingly, impairment charge under US GAAP has been adjusted for the difference between the cost basis under HKFRS and US GAAP. Further, the related financial assets transferred to a third party under the defeased lease agreements have not met all of the criteria for treatment of a sale under SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The related assets and liabilities as at 31 December 2006 are HK$1,858 million (2005 – HK$2,210 million).

(iv) Lease arrangement

In March 2006, the Group entered into an agreement with a third party supplier for leasing certain block wiring systems built specifically for the Group with an option to purchase such systems at a certain price during the lease period. Under HKFRS, the lease arrangement is determined as an operating lease since it will not transfer substantially all the risks and rewards incident to the ownership according to the agreement. Under US GAAP, the installation of the block wiring systems is subject to EITF 97-10 "The Effect of Lessee Involvement in Asset Construction" and is considered integral equipment under FIN 43 "Real Estate Sales" and EITF 00-13 "Determining Whether Equipment is Integral Equipment subject to FASB Statements No.66 and No.98". EITF 00-13 requires a lessee to record the construction cost during the construction period if the lessee has substantially all of the construction period risks. Such an evaluation is conducted through a maximum guarantee test. Since the deposit paid by the Group for the block wiring systems exceeds the project costs incurred by the third party supplier at the inception, the Group accounted for the arrangement as a construction contract and accordingly an amount of HK$19.6 million was recognised as fixed assets with a corresponding reduction of HK$5.7 million in trade and other receivables and an increase of HK$13.9 million in accounts payable and accruals under US GAAP. The corresponding depreciation will commence once the equipments installation is complete and ready for use.

(j) Deferred taxation

HKFRS and US GAAP are substantially the same with respect to deferred income tax expense or benefit that affects the Group.

The amounts included in the reconciliation show the income tax effects of the differences between HKFRS and US GAAP as described above.

(k) Exchange translation adjustments

Under HKFRS, up to 1 January 2005, goodwill arising from business combinations was translated at historical exchange rates. As at 1 January 2005, with the adoption of HKAS 21, goodwill is translated at closing rate for acquisitions take place after 1 January 2005.

Under US GAAP, goodwill and intangible assets arising from business combination are translated at the exchange rates prevailing at the year end.

In 2005 and 2006, the amounts included in the reconciliation show the effect on the shareholders' funds of the differences between HKFRS and US GAAP described above.

The cumulative translation adjustment impact of each reconciling item is included in each respective reconciling item in the reconciliation for shareholders' funds. The cumulative translation adjustment line at the bottom of the reconciliation is the total of all such translation adjustments presented for information purpose.

Difference in Operating Profit

In 2005, the operating profit reported per HKFRS was HK$2,154 million and the operating profit reported per US GAAP was HK$1,966 million. The difference related to the classification of the profit on partial disposal of subsidiary company of HK$71 million being included in the operating profit per HKFRS and the rest attributed to the differences between HKFRS and US GAAP described above.

In 2006, the operating profit reported per HKFRS was HK$5,045 million and the operating profit reported per US GAAP was HK$4,594 million. The difference related to the classification of the profit on partial disposal of subsidiary company of HK$44 million being included in the operating profit per HKFRS and the rest attributed to the differences between HKFRS and US GAAP described above.

Condensed Consolidated Statement of Changes in Shareholders' Equity

	2005 HK$ millions	2006 HK$ millions	2006 US$ millions
Share Capital			
Balance, beginning of year	1,125	1,188	153
Issuance of ordinary shares	63	3	-
Balance, end of year	1,188	1,191	153
Additional paid-in capital			
Balance, beginning of year	19,041	20,959	2,704
Related to subsidiary companies acquired	1,801	-	-
Issuance of ordinary shares arising from exercise of employee share options	-	113	14
Share-based payments	117	96	12
Transfer from accumulated deficits	-	4	-
Balance, end of year	20,959	21,172	2,730
Accumulated other comprehensive income (AOCI)			
Balance, beginning of year	-	-	-
Adjustment to AOCI	-	20	3
Balance, end of year	-	20	3
Accumulated deficits			
Balance, beginning of year	(7,084)	(7,999)	(1,032)
Net loss attributable to equity holders of the Company	(915)	(493)	(63)
Transfer to additional paid-in capital	-	(4)	-
Balance, end of year	(7,999)	(8,496)	(1,095)
Cumulative translation adjustments			
Balance, beginning of year	(373)	(468)	(60)
Translation adjustment	(214)	(70)	(15)
Related to subsidiary disposed of	119	-	-
Balance, end of year	(468)	(538)	(75)
Total shareholders' equity	13,680	13,349	1,716

Variable Interest Entities ("VIEs")

In 2005 and 2006, the Group conducted its operations in India and Thailand through entities in which the Company did not have voting control or a majority of the direct equity interest.

For the entities in India, in addition to its direct minority interest in each of the entities, in 2004 the Group also had indirect interests of varying percentages ranging from 0.3% to 25% in the Indian operating entities. In February 2005, after the India Restructuring, the Group had a direct 42.34% equity interest and an indirect attributable 13.9% equity interest in all the India operating entities. The Group's indirect attributable equity interest in Hutchison Essar subsequently decreased by approximately 3% and then increased by approximately 1% in June and October 2005 respectively. In 2006, following the reorganisation of its holding structure in Hutchison Essar and the acquisition of an interest in IndusInd Telecom Network Limited, the Group held a direct 42.34% equity interest in Hutchison Essar and a 37.25% equity interest in an investment holding company holding a 19.54% equity interest in Hutchison Essar and a 45.79% equity interest in an investment holding company holding a 5.11% equity interest in Hutchison Essar. As a consequence, the Group consolidated the Indian operating entities as subsidiaries for the year ended 31 December 2006.

The Group has also established an entity to facilitate the sale and leaseback transaction described in Note I(iii) above. Under HKFRS, these entities are included as subsidiary companies for the reasons described in Note 2(d). Under US GAAP, these entities are variable interest entities as defined in Financial Accounting Standards Board Interpretation No. 46 ("FIN 46R"). As a result of the direct and indirect ownership interests and other financing arrangements, the Group has determined that it was the primary beneficiary, as defined in FIN 46R, for these entities from the date of acquisition or incorporation and, accordingly, has included the financial statements of these entities in the Group's consolidated financial statements. FIN 46R has been applied for all periods presented.

The following principal entities are variable interest entities in which the Group is the primary beneficiary:

	Total Assets as at 31 December 2005 HK$ millions	Revenue for the year ended 31 December 2005 HK$ millions	**Total Assets as at 31 December 2006 HK$ millions**	**Revenue for the year ended 31 December 2006 HK$ millions**
Hutchison CAT Wireless MultiMedia Limited	1,419	1,045	**1,700**	**1,016**
Operating entities in India (note 1)	14,004	9,991	**N/A**	**2,181**
Telecom Investments India Private Limited	1,024	-	**3**	**-**
Usha Martin Telematics Limited	1,069	6	**66**	**2**
Pacific Leasing Limited	2,210	-	**1,858**	**-**

The following entity is a variable interest entity in which the Group holds a variable interest, but is not the primary beneficiary:

	Hutchison Telecommunications Argentina S.A.		**3 Global Services Private Limited**
Balances and results as at and for the year ended 31 December	2005 HK$ millions	**2006 HK$ millions**	**2006 HK$ millions**
Total assets	14	**11**	**130**
Revenue	32	**22**	**464**
(Loss)/profit attributable to shareholders	(113)	**(16)**	**24**
The Group's maximum exposure to loss as a result of its involvement	552	**561**	**-**

Note 1: The Group consolidated the Indian operating entities as subsidiaries subsequent to the reorganisation of the holding structure in Hutchison Essar in March 2006.

Fair Value of Financial Instruments

The Group has put and call options to acquire certain minority interests in its variable interest entities in India and Thailand.

For entities in India, certain put and call options are exercisable at fair market value of its variable interest entities as per terms and conditions of respective option contracts.

For the entities in Thailand, the put and call options are exercisable at anytime at a nominal value.

Deferred Taxation

As of 31 December 2006, the Group had accumulated tax losses amounting to HK$12,618 million (2005 – HK$9,809 million) which may be carried forward and applied to reduce future taxable income which is carried in or derived from Hong Kong and overseas. The tax effect on the accumulated tax losses amounted to HK$2,775 million (2005 – HK$2,203 million).

The tax losses of certain subsidiary companies, mainly Hong Kong, can be carried forward indefinitely while the tax losses of the majority of the subsidiary companies in overseas will expire within periods ranging from 2007 to 2014. Realisation of deferred tax assets associated with tax loss carry forwards is dependent upon generating sufficient taxable income.

At 31 December 2006, a valuation allowance of HK$3,703 million (2005 – HK$2,578 million) had been provided for against the remaining deferred tax assets related to the tax losses carried forward, depreciation allowances and other temporary differences since management believes it is more likely than not that taxable income will not be sufficient in the foreseeable future to utilise the tax loss carry forward.

	31 December 2005 HK$ millions	**31 December 2006 HK$ millions**
Net deferred tax (liabilities) /assets:		
Deferred tax liabilities	(768)	**(954)**
Deferred tax assets	3,492	**4,697**
Valuation allowance	(2,578)	**(3,703)**
	146	**40**

Share-based Payments

(i) Employee Stock Option Plans of Partner Communications Company Limited

Partner became the Group's subsidiary from April 2005.

In July 2004, the board of directors of Partner approved an employee stock option plan (as amended on 1 March 2006) (the "2004 Plan") for options to be granted to employees under the provisions of the capital gain's tax route provided for in section 102 of the Israeli Income Tax Ordinance.

The purpose of the 2004 Plan is to promote the interests of Partner and its shareholders by providing employees, officers and advisors of Partner with appropriate incentives and rewards to encourage them to enter into and continue in the employment of or service to Partner and to acquire a proprietary interest in the long-term success of Partner. The 2004 Plan will remain in force for 10 years from its adoption in July 2004.

A total number of 5,775,000 ordinary shares of Partner (the "Partner Shares"), representing 3.70% of the total issued share capital of Partner as at the date of this report may be issued under the 2004 Plan. The maximum number of options which may be issued and allotted to each participant under the 2004 Plan shall not exceed 1,834,615 Partner Shares, representing approximately 1.17% of the total number of shares in issue at the date of this report.

An option shall become cumulatively vested as to one-fourth (25%) of the shares covered thereby on each of the first, second, third and fourth anniversaries of the date of the relevant grant, unless otherwise set by the Compensation Committee of Partner (the "Partner Compensation Committee") being appointed by Partner's board of directors to administer the 2004 Plan, in the relevant grant instrument. The exercise period during which an option may be exercised will be determined by the Partner Compensation Committee and will not exceed ten years from the date of grant of options. No payment is required to be made by the grantee on application or acceptance of an option.

The Partner Compensation Committee has the authority to determine the exercise price per share (the "Option Exercise Price"). The Option Exercise Price will be determined taking into consideration the fair market value of a Partner Share at the time of grant. Such fair market value on any date will be equal to the average of the closing sale price of the Partner Shares during the preceding thirty trading days, as such closing sale price is published by the national securities exchange in Israel on which the Partner Shares are traded, or if there is no sale of Partner Shares on such date, the average of the bid and asked prices on such exchange at the closing of trading on such date, or if Partner Shares are not listed on a securities exchange in Israel or the over the counter market, the fair market value on such date as determined in good faith by the Partner Compensation Committee.

The board of directors of Partner adopted the 1998 Employee Stock Option Plan (the "1998 Plan") and 2000 Employee Stock Option Plan (the "2000 Plan") in 1998 and 2000 respectively. Until November 2003, Partner granted options to senior managers and other employees pursuant to the 1998 Plan and the 2000 Plan. In November 2003, the 1998 Plan and the 2000 Plan were amended to conform to the changes in the Israeli Income Tax Ordinance (New Version), 1961. As a result, any grant of options after November 2003 would be subject to the terms of the 2000 Plan as so amended, referred to as the 2003 Amended Plan. Options granted under the 1998 Plan, 2000 Plan and 2003 Amended Plan, which were approved by Partner prior to Partner becoming a subsidiary of the Company in April 2005, will remain valid but no further grant of options will be made under the aforesaid three Plans without the board of directors of Partner approving relevant amendments being made necessary by the changes in Israeli laws and other regulatory requirements, as applicable and until they are approved by shareholders of the Company.

Partner's share-based compensation cost that was included in the consolidated income statement was HK$39 million for the year ended 31 December 2006 (2005: HK$38 million). The total income tax benefit recognised in the consolidated income statement for share-based compensation arrangements was HK$3 million for the year ended 31 December 2006 (2005: HK$3 million).

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model that uses the assumption noted in the following table.

	After 1 April 2005	2006
Expected volatility	58%	**39%**
Expected dividend yield	0%	**6.1%**
Risk-free interest rate	3.5%	**5.5%**
Weighted average expected life	5 years	**5 years**

A summary of option activity under the employee stock option plan as of 31 December 2006, and changes during the year are presented below:

Options	Shares (in '000)	Weighted-Average Exercise Price (NIS)	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (NIS million)
Outstanding at 31 December 2005	7,067	25.85		
Granted	596	33.18		
Exercised	(1,988)	22.72		
Forfeited/Expired	(602)	27.14		
Outstanding at 31 December 2006	5,073	27.78	7.5	104.0
Exercisable at 31 December 2006	2,377	26.57	6.6	51.6

The weighted-average grant-date fair value of options granted during the year was approximately NIS10.82, equivalent to HK$20 (2005 – HK$36). The total intrinsic value of options exercised during the year was approximately NIS36.8 million, equivalent to HK$68 million (2005 – HK$44 million).

Cash received from the exercise of option under all share-based payment arrangements during the year was approximately NIS44 million, equivalent to HK$78 million (2005 – HK$32 million).

At 31 December 2006, the total unrecognised compensation cost related to non-vested share-based compensation arrangements granted under the plans mentioned above amounted to NIS20.4 million equivalent to HK$38 million (2005 – HK$64 million).

(ii) The HutchEssar Option Plan

The HutchEssar Employees Stock Option Plan 2005 of Hutchison Essar ("HutchEssar Option Plan") was approved for adoption by the shareholders of Hutchison Essar on 21 December 2005 and subsequently by the shareholders of the Company at the annual general meeting held on 16 May 2006. The HutchEssar Option Plan will be in effect for a period of 10 years from its effective date of 1 July 2005.

No option granted under the HutchEssar Option Plan will vest unless and until Hutchison Essar has completed an initial public offering and listing of its shares on a recognised stock exchange. The HutchEssar Option Plan provides that options granted to employees automatically vest as to 30% on either the expiry of the period of 12 months after the relevant date of offer of options (the "Offer Date"), or on the date on which Hutchison Essar's shares are first traded on any recognised stock exchange (the "IPO Date") or 1 January 2007, whichever is the latest; as to 30% on either the expiry of the period of 24 months after the Offer Date, or at the expiry of the period of 12 months after the IPO Date, whichever is the later; and as to 40% on either the expiry of the period of 36 months after the Offer Date, or at the expiry of 24 months after the IPO Date, whichever is the later. The relevant Indian regulations require a minimum period of 12 months between the grant of options and the vesting of such options. The exercise period in respect of a particular option shall commence from the date of vesting until the date falling 10 years from the offer of the option subject to earlier lapse in accordance with the provisions of the HutchEssar Option Plan.

The following share options were outstanding under the HutchEssar Option Plan during the year ended 31 December 2006:

Options	2005 (in '000)	**2006 (in '000)**
Outstanding options at beginning of the year	–	**4,489**
Granted	4,489	**2,045**
Exercised	N/A	**N/A**
Forfeited/Expired	–	**(872)**
Outstanding options at end of the year	4,489	**5,662**
Exercisable options at end of the year	N/A	**N/A**

No compensation cost was recognised with respect to these options during the year ended 31 December 2006 since there is no certainty that these options will vest in the foreseeable future.

Business Co-operation Contract

As discussed in Note 2(g), the Group obtained an investment licence to engage in a business co-operation under a Business Co-operation Contract ("BCC") in Vietnam. Under HKFRS, the Group has recognised in its financial statements the assets that it controls and the liabilities that it incurs, as well as, the expenses that it incurs and its share of the income, if any, from the BCC. Under US GAAP, the BCC is accounted for as an operating lease in accordance with EITF 01-08 "Determining whether an arrangement contains a lease". The difference between HKFRS and US GAAP does not have any impact on net income and shareholders' equity as at 31 December 2006.

Effect of Recent Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. We are required to adopt FIN 48 effective 1 January 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognised upon adoption of FIN 48. The Group is currently evaluating the impact of this Interpretation on our future results of operations and financial position.

Fair Value Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 expands disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorises and prioritises the sources to be used to estimate fair value. We are required to adopt SFAS 157 effective 1 January 2008 on a prospective basis. The Group is currently evaluating the impact of this new standard on our future results of operations and financial position.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealised gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognised in earnings as incurred and not deferred. We are required to adopt SFAS 159 effective 1 January 2008. The Group is currently evaluating the impact of this new standard on our future results of operations and financial position.

Effect of Prior-Year Misstatements when Qualifying Misstatements in Current-Year Financial Statements

In March 2007, the FASB Staff Position issued a proposed FSP 154a "Considering the Effects of Prior-Year Misstatements when Qualifying Misstatements in Current-Year Financial Statements" ("FSP 154a"). FSP 154a extends the guidance for SEC registrants in SAB 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108") to all other non-governmental entities that are not subject to the requirements of SAB 108. FSP 154a does not have any impact on the Group's results of operations and financial position as the Group has adopted SAB 108 for its fiscal year ended 31 December 2006.