

Hutchison Whampoa Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 013)

OVERSEAS REGULATORY ANNOUNCEMENT

Please refer to the attached Form 20-F which was filed with the U.S. Securities and Exchange Commission on 27 June 2007 by Hutchison Telecommunications International Limited which is a non wholly owned subsidiary of Hutchison Whampoa Limited.

As at the date of the announcement, the Directors of Hutchison Whampoa Limited are:

Executive Directors:

Mr. LI Ka-shing (*Chairman*)
Mr. LI Tzar Kuoi, Victor (*Deputy Chairman*)
Mr. FOK Kin-ning, Canning
Mrs. CHOW WOO Mo Fong, Susan
Mr. Frank John SIXT
Mr. LAI Kai Ming, Dominic
Mr. KAM Hing Lam

Non-executive Directors:

Mr. George Colin MAGNUS
Mr. William SHURNIAK

Independent Non-executive Directors:

The Hon. Sir Michael David KADOORIE
Mr. Holger KLUGE
Mr. William Elkin MOCATTA
*(Alternate to The Hon. Sir Michael
David Kadoorie)*
Mr. OR Ching Fai, Raymond
Mr. WONG Chung Hin

Hong Kong, 28 June 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

For the transition period from _____ to _____

Commission file number: 001-32309

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

和記電訊國際有限公司

(Exact name of Registrant as specified in its charter)

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

(Translation of Registrant's name into English)

CAYMAN ISLANDS
(Jurisdiction of incorporation or organization)

20/F, Hutchison Telecom Tower
99 Cheung Fai Road
Tsing Yi
Hong Kong
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 15 Ordinary Shares of nominal value HK\$0.25 each; and	New York Stock Exchange
Ordinary Shares, nominal value HK\$0.25 each	Hong Kong Stock Exchange New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, nominal value HK\$0.25 each 4,765,972,542

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act of 1934. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual or transition report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading, but only in connection with the registration of the American Depositary Shares

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report on Form 20-F, references to “our company”, “we”, “us”, “our” and similar terms refer to Hutchison Telecommunications International Limited and, unless the context otherwise requires, to its subsidiaries and associated companies.

Unless indicated otherwise, the financial information in this annual report has been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS, which term collectively includes Hong Kong Accounting Standards, or HKAS, and related interpretations issued by the Hong Kong Institute of Certified Public Accountants, and is presented in Hong Kong dollars. HKFRS differs in some material respects from United States generally accepted accounting principles, or US GAAP. For a discussion of these differences and a reconciliation of net profit / (loss) attributable to equity holders of the company and shareholders’ equity to US GAAP, see “Operating and Financial Review and Prospects” below and note 36 to our consolidated accounts.

- references to “Ghanaian Cedi” or “GHC” are to the currency of Ghana;
- references to “Hong Kong dollars” or “HK\$” are to the currency of Hong Kong;
- references to “Indian Rupee” or “INR” are to the currency of India;
- references to “Indonesian Rupiah” or “IDR” are to the currency of Indonesia;
- references to “Japanese Yen” or “JPY” are to the currency of Japan;
- references to “New Israeli Shekel” or “NIS” are to the currency of Israel;
- references to “Sri Lankan Rupee” or “LKR” are to the currency of Sri Lanka;
- references to “Thai Baht” or “THB” are to the currency of Thailand; and
- references to “U.S. dollars,” “USD” or “US\$” are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be as a result of rounding.

For your convenience, this annual report contains translations of certain Hong Kong dollar amounts into U.S. dollars at the noon buying rate in New York for cable transfers as certified by the Federal Reserve Bank of New York in effect on December 29, 2006, which was HK\$7.78 = US\$1.00. In addition, this annual report contains translations of Indian Rupees, New Israeli Shekels, Indonesian Rupiah, Japanese Yen and Thai Baht into Hong Kong dollars at the rates of INR1.00 = HK\$0.1744, NIS1.00 = HK\$1.86, IDR1.00 = HK\$0.00086, JPY1.00 = HK\$0.0657 and THB1.00 = HK\$0.2134, respectively. This does not mean that the currencies have been or could be converted at any of these rates.

FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission, or the SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains forward-looking statements within Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We use words such as "will," "aim," "will likely result," "will continue," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance to identify forward-looking statements, but they are not the only way we identify such statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to our business discussed under "Key Information—Risk Factors," other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our business strategy;
- uncertainties about the degree of growth in the number of consumers in the markets in which we operate using mobile personal communications services and the growth in the population in those areas;
- the risks associated with the implementation of new networks, including risks relating to the operation of new systems and technologies, substantial expenditures required and potential unanticipated costs, uncertainties regarding the adequacy of suppliers on whom we must rely to provide both network and consumer equipment and consumer acceptance of the products and services to be offered;
- the impact of existing and new competitors in the markets in which we compete, including competitors that may offer less expensive products and services, more desirable or innovative products or technological substitutes, or have more extensive resources or better financing;
- the effects of rapid technological changes and vigorous competition in the markets in which we operate, which may cause prices charged to decline, increase movement of customers among providers of mobile telecommunications services, known as churn, or change our customer mix, profitability or average revenue per user;
- other factors or trends affecting the telecommunications industry generally and our financial condition in particular; and
- the effects of the higher degree of regulation in the markets in which we operate.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or the impact on our financial condition and results of operations could differ materially from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this annual report which are beyond our control include, but are not limited to:

- general economic and political conditions in the countries in which we operate or other countries which have an impact on our business activities or investments;
- the monetary and interest rate policies of the countries in which we operate;
- inflation or deflation;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- the performance of the financial markets in the countries in which we operate and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in the countries in which we operate; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see the discussion under "Key Information—Risk Factors" contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

A. Summary Consolidated Financial Data

The following tables set forth summary consolidated financial data about our company. We have derived the consolidated financial data as of December 31, 2002, 2003 and 2004 and for the years ended December 31, 2002 and 2003 from our audited consolidated accounts which are not included in this annual report on Form 20-F. We have derived the consolidated financial data as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 from our audited consolidated accounts included in this annual report on Form 20-F. The summary financial data should be read in conjunction with, and is qualified in its entirety by reference to, these consolidated accounts, including the related notes. These accounts have been audited by PricewaterhouseCoopers, Hong Kong, independent registered public accounting firm.

You should read the following summary consolidated financial data in conjunction with the rest of this annual report, including our consolidated accounts and the related notes and the more detailed information contained in "Operating and Financial Review and Prospects." For a description of the basis of presentation of these accounts, see note 2 to our accounts and "Operating and Financial Review and Prospects—Basis of Preparation of Accounts."

Our consolidated accounts have been prepared in accordance with HKFRS, which differ in some material respects from US GAAP. For a discussion of these differences and a reconciliation of net loss attributable to shareholders and shareholders' funds to US GAAP, see note 36 to our accounts.

We completed a restructuring of our company in September 2004, which is described in "Information on the Company—History and Development of the Company—The Restructuring" and elsewhere in this annual report. Under HKFRS, the restructuring was accounted for as if it had been consummated as of the beginning of the years presented, except that the capitalization of net long-term amount due to related companies and related interest expenses were not reflected until the restructuring occurred on September 22, 2004.

Under US GAAP, the restructuring was accounted for as if it had been consummated as of the beginning of the years presented. This resulted in our share capital when reconciled to US GAAP being retroactively restated for the effect of the capitalization of the long-term amounts due to related companies in exchange for our ordinary shares issued to members of the Hutchison Whampoa Limited group of companies. Pursuant to the restructuring, HK\$20,869 million of the net amount due to related companies was capitalized on September 22, 2004 as share capital and share premium of our company, which comprised both amounts payable included in amounts due to related companies and amounts receivable included in amounts due from related companies on our balance sheet under HKFRS. In addition to this amount, retroactive effect has also been given to the interest expense related to the net amounts due to related companies for the years presented. Thus, under US GAAP, the related interest expense prior to the date of capitalization was debited against additional paid in capital. Under HKFRS, this interest expense was included in the consolidated income statement.

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	Year ended December 31,					
	2002	2003	2004	2005	2006	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	US\$
Consolidated income statements						
HKFRS						
Continuing operations:						
Turnover	7,635	10,045	14,845	24,356	33,378	4,290
Cost of inventories sold	(529)	(524)	(1,373)	(2,331)	(2,305)	(296)
Staff costs	(978)	(1,061)	(1,586)	(2,319)	(2,666)	(343)
Depreciation and amortization	(1,676)	(2,277)	(3,117)	(4,367)	(5,076)	(652)
Other operating expenses	(4,754)	(5,855)	(8,913)	(13,256)	(18,330)	(2,356)
Operating profit/(loss) before disposal of investments and others	(302)	328	(144)	2,083	5,001	643
Profit on disposal of investments and others, net ⁽¹⁾	278	—	1,300	71	44	6
Operating profit/(loss)	(24)	328	1,156	2,154	5,045	649
Interest income	87	56	24	65	121	16
Interest and other finance costs	(862)	(880)	(1,039)	(1,669)	(2,763)	(356)
Share of results of associates	53	842	338	86	(1)	—
Share of results of jointly controlled entities	(37)	—	—	—	—	—
Profit/(loss) before taxation	(783)	346	479	636	2,402	309
Taxation	(125)	(443)	(185)	(434)	(826)	(106)
Profit/(loss) for the year from continuing operations	(908)	(97)	294	202	1,576	203
Discontinued operations:						
Loss from discontinued operations	(76)	(75)	(54)	(352)	—	—
Profit/(loss) for the year	(984)	(172)	240	(150)	1,576	203
Attributable to:						
Equity holders of the Company:						
– continuing operations	(966)	(321)	24	(416)	201	26
– discontinued operations	(76)	(75)	(54)	(352)	—	—
	(1,042)	(396)	(30)	(768)	201	26
Minority interest – continuing operations	58	224	270	618	1,375	177
	(984)	(172)	240	(150)	1,576	203
Earnings/(loss) per share from continuing operations, basic and diluted	(0.21)	(0.07)	0.01	(0.09)	0.04	0.01
Earnings/(loss) per share from discontinued operations, basic and diluted	(0.02)	(0.02)	(0.01)	(0.08)	N/A	N/A
US GAAP⁽²⁾						
Loss attributable to shareholders	(791)	(330)	(232)	(915)	(493)	(63)
Loss per share, basic and diluted	(0.18)	(0.07)	(0.05)	(0.20)	(0.10)	(0.01)

(1) The HK\$1,300 million profit for the year ended December 31, 2004 is a one-time gain from the placement of shares in Hutchison Global Communications Holdings Limited, as further described in “Operating and Financial Review and Prospects—Year Ended December 31, 2005 Compared to Year Ended December 31, 2004.”

(2) Both HKFRS and US GAAP data for the years presented reflect the effects of our restructuring in September 2004 as if the restructuring had occurred on January 1, 2002. However, the HKFRS data presented above does not reflect the effects of the capitalization of the net amount due to related companies as share capital and share premium of our company until the restructuring occurred on September 22, 2004. See note 36 to our accounts for further information regarding US GAAP and the reconciliation of our net profit/(loss) attributable to shareholders and shareholders’ equity/(deficit) under HKFRS to US GAAP.

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	As at December 31,					
	2002	2003	2004	2005	2006	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	US\$
Consolidated balance sheets						
HKFRS						
Assets						
Cash and cash equivalents	2,859	1,993	2,102	2,436	2,048	263
Restricted cash	575	6	10	1	—	—
Other current assets	1,639	3,177	4,211	10,706	10,549	1,356
Total non-current assets	<u>26,724</u>	<u>31,991</u>	<u>34,397</u>	<u>46,448</u>	<u>67,121</u>	<u>8,627</u>
Total assets	<u>31,797</u>	<u>37,167</u>	<u>40,720</u>	<u>59,591</u>	<u>79,718</u>	<u>10,246</u>
Liabilities						
Current borrowings	6,354	5,483	13,844	7,690	16,048	2,063
Other current liabilities	4,792	6,016	6,852	10,781	13,817	1,776
Non-current borrowings	6,548	7,485	3,582	19,002	23,369	3,004
Amounts due to related companies ⁽¹⁾	18,805	22,903	—	—	—	—
Deferred tax liabilities	—	46	148	963	1,075	138
Other non-current liabilities	<u>1,251</u>	<u>1,255</u>	<u>1,428</u>	<u>1,333</u>	<u>2,992</u>	<u>384</u>
Total liabilities	<u>37,750</u>	<u>43,188</u>	<u>25,854</u>	<u>39,769</u>	<u>57,301</u>	<u>7,365</u>
Capital and reserves						
Share capital	—	—	1,125	1,188	1,191	153
Reserves	<u>(6,279)</u>	<u>(6,716)</u>	<u>12,705</u>	<u>14,982</u>	<u>15,468</u>	<u>1,988</u>
Shareholders' equity/(deficit)	<u>(6,279)</u>	<u>(6,716)</u>	<u>13,830</u>	<u>16,170</u>	<u>16,659</u>	<u>2,141</u>
Minority interest	<u>326</u>	<u>695</u>	<u>1,036</u>	<u>3,652</u>	<u>5,758</u>	<u>740</u>
Total equity	<u>(5,953)</u>	<u>(6,021)</u>	<u>14,866</u>	<u>19,822</u>	<u>22,417</u>	<u>2,881</u>
US GAAP⁽¹⁾						
Shareholders' equity ⁽²⁾	<u>10,909</u>	<u>13,154</u>	<u>12,709</u>	<u>13,680</u>	<u>13,349</u>	<u>1,716</u>

(1) Both HKFRS and US GAAP data for the years presented reflect the effects of our restructuring in September 2004 as if the restructuring had occurred on January 1, 2002. However, the HKFRS data presented above does not reflect the effects of the capitalization of the net amount due to related companies as share capital and share premium of our company until the restructuring occurred on September 22, 2004. See note 36 to our accounts for further information regarding US GAAP and the reconciliation of our net profit/(loss) attributable to shareholders and shareholders' equity/(deficit) under HKFRS to US GAAP.

(2) In connection with our restructuring in September 2004, we issued additional ordinary shares to capitalize HK\$20,869 million of the net outstanding loans from Hutchison Whampoa Limited and its group companies. The balance of HK\$2,367 million of outstanding debt was offset by HK\$2,056 million of receivables in our restructuring, leaving HK\$311 million of non-capitalized debt.

Table of Contents**Exchange Rate Information**

The exchange rates set forth below between the Hong Kong dollar and the US dollar (in HK\$ per US\$) are based on the noon buying rate in New York City for cable transfers as certified by the Federal Reserve Bank of New York. On June 15, 2007, the exchange rate was HK\$7.8188 per US\$1.00. The following table sets out the high and low exchange rates in effect for each of the months indicated:

Month	Exchange Rates	
	High	Low
	(HK\$ per US\$1.00)	
December 2006	7.7787	7.7665
January 2007	7.8112	7.7797
February 2007	7.8141	7.8041
March 2007	7.8177	7.8093
April 2007	7.8212	7.8095
May 2007	7.8236	7.8044

The following table sets forth the average exchange rates calculated by using the average of the exchange rates on the last day of each month for each of the years indicated:

Year ended December 31,	Average Exchange Rate
	(HK\$ per US\$1.00)
2002	7.7996
2003	7.7864
2004	7.7899
2005	7.7755
2006	7.7685

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

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D. Risk Factors

Risks Relating to Our Business

We have sold CGP Investments (Holdings) Limited, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunication operation, which will significantly affect our revenues and profitability and reduce the rate of growth of our business

On May 8, 2007, we completed the sale to a wholly owned subsidiary of Vodafone Group Plc, or Vodafone, of our entire interest in CGP Investments (Holdings) Limited, or CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar Limited, or Hutchison Essar, and its subsidiaries. During 2006, the India operation accounted for approximately 46.3% of our total revenues and 71.9% of our total operating profit, and as of December 31, 2006 it accounted for approximately 78.7% of our total customers. In addition, the India operation had been a major contributor to the growth of our business during the past three years. As a result of this sale, we may not enjoy the same economies of scale and rates of growth that we had before we sold CGP Investments Holdings. See “Operating and Financial Review and Prospects” for more information regarding how the sale of CGP Investments Holdings may affect our financial condition and results of operations.

In addition, under the terms of the sale and purchase agreement that we entered into with Vodafone, there are restrictions on our ability to directly or indirectly carry on, engage in or acquire an economic interest in, any business in India that competes with the telecommunications business of Hutchison Essar for a period of three years from the date of completion of the sale.

Under the sale and purchase agreement, we will also be subject to warranty claims by Vodafone. Although we have agreed to allow Vodafone to retain US\$352 million from the sale proceeds that it may apply against certain liabilities that it may incur during the ten years following the completion of the sale, we cannot assure you that we will not need to make additional payments and that such additional payments will not adversely affect our financial condition and results of operations.

Following our sale of CGP Investments Holdings to Vodafone, our financial condition and results of operations will be significantly dependent upon our Israel and Hong Kong operations

Following our sale of CGP Investments Holdings to Vodafone, Israel and Hong Kong will each represent a much larger percentage of our operations. Excluding results from the India operation, during 2006 our Israel and Hong Kong operations represented approximately 54.7% and 36.8%, respectively, of our total turnover, and 120.5% and 35.7%, respectively, of our total operating profit. Similarly, excluding customers in India, as of December 31, 2006, Israel and Hong Kong accounted for approximately 42.4% and 34.0%, respectively, of our total customers. Changes in demand, economic and political developments, regulatory changes and operational difficulties in either or both of these markets will have a significantly greater effect on our business than when our business included the India operation. If revenue from these two markets declines and we are not able to generate a comparable amount of income from our other market areas, our business and financial performance may be adversely affected.

We may face risks associated with acquisitions, investments, strategic partnerships or other ventures

With the proceeds from the sale of CGP Investments Holdings, we intend to seek opportunities in telecoms markets that we believe can create long-term value for our shareholders. This may result in us pursuing strategic acquisitions or investments as appropriate opportunities arise. We may not be successful in identifying suitable acquisition, investment or strategic partnership candidates. Even if we do identify suitable candidates, we may not complete those transactions on commercially acceptable terms or on a timely basis, or at all. In addition, we may incur indebtedness to pay for any acquisition or investment. Such acquisitions and investments involve other risks, such as:

- the diversion of our management's attention and other resources from other business concerns;
- expenses, delays and difficulties in assimilating and integrating the operations, technologies, products and personnel of the acquired company;
- not realizing the anticipated benefits of any acquisition or investment;
- adversely affecting our financial condition due to the timing of the acquisition or investment; and
- potentially acquiring undisclosed or underestimated liabilities

If any of these risks are realized, our business, financial condition and results of operations could be materially adversely affected.

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We face significant competition in our markets, which could affect current and potential customers, revenues and profitability

We face significant competition in our markets. In particular, we expect competition among providers of mobile telecommunications services, including new entrants (such as mobile virtual network operators, or MVNOs, which are providers of mobile telecommunications services that do not own their own allocation of spectrum), to continue to drive prices for services and handsets (which we subsidize in some markets) lower. In addition, number portability requirements, which enable customers to switch their providers of mobile telecommunications services without changing their mobile phone numbers, have been introduced in some of the markets in which we operate and will likely be introduced in other markets in the future. In particular, in Israel a mobile number portability plan was required to be implemented by September 2006. At present, however, none of the mobile telecommunications operators in Israel, including Partner Communications Company Ltd., or Partner, our mobile telecommunications operator in Israel, has implemented mobile number portability yet despite efforts to introduce the requisite technology and to coordinate the transition to number portability by that date. These developments could lead to greater movement of customers among providers of mobile telecommunications services, known as churn, which could increase our marketing, distribution and administrative costs, slow growth in the number of our customers and reduce our revenues.

Our market position will also depend on effective marketing initiatives and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors and changes in consumer preferences and economic, political and social conditions in the countries in which we operate. Any failure by us to compete effectively, including in terms of pricing of services, anticipating and developing new technologies and services, acquisition of new customers and retention of existing customers, could have a material adverse effect on our financial condition and the results of our operations.

We may not realize the benefits we expect from our capital expenditures, which may adversely impact our business

We have made significant capital expenditures on our network infrastructure and information technology systems to provide the services we offer. Our capital expenditures were HK\$4,658 million in 2004, HK\$4,718 million in 2005 and HK\$9,119 million (US\$1,172 million) in 2006, a significant majority of which were comprised of expenditures on telecommunications and network equipment. In order to continue to develop our business and offer new services, we intend to continue to invest in networks in new service areas as well as new technologies, which we expect will result in substantial capital expenditures. As a result of our sale of CGP Investments Holdings, we will no longer need to make any capital expenditure in India. Accordingly, our capital expenditure is expected to decrease in 2007 to an anticipated level of HK\$6,000 million (US\$771 million) to HK\$7,000 million (US\$900 million), more than half of which we expect to be used for network build-out in our new operations in Indonesia and Vietnam.

We may not be successful in marketing these new services to consumers, thus impairing the return from our expenditures. We cannot assure you that services enabled by new technologies we implement will generate an acceptable rate of return. In addition, we face the risk of unforeseen complications in the deployment of new service areas and new technologies, and we cannot assure you that our estimate of the necessary capital expenditure will not be exceeded. If we do not realize the anticipated benefits of our capital expenditures, or if our required expenditures exceed our estimates, our financial condition and results of operations could be materially and adversely affected.

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We have a history of losses and negative cash flows, which may continue and adversely affect our ability to meet our business and growth objectives

We have incurred losses and recorded negative cash flows in recent years. Although we had a profit attributable to equity holders of HK\$201 million (US\$26 million) in 2006, we had a loss attributable to equity holders of HK\$768 million in 2005 and HK\$30 million in 2004. The loss in 2004 was after a one-time profit of HK\$1,300 million from the placement of shares in Hutchison Global Communications Holdings Limited, or Hutchison Global Communications Holdings, as further described in “Operating and Financial Review and Prospects—Results of Operations—Year Ended December 31, 2005 Compared to Year Ended December 31, 2004—Group Results.” Our mobile telecommunication operations in Hong Kong returned to operating profit in 2006 after operating losses in 2004 and 2005, while we have experienced operating losses in our Thailand operation throughout its history, and we expect our new operations in Indonesia and Vietnam to be loss-making in 2007. As of December 31, 2006, we had an accumulated loss of HK\$6,915 million (US\$889 million).

It is possible that we will record losses in some future periods, and we cannot assure you that our losses will not increase in the future or, in the event that we do have profits, that we will be able to sustain our operating profits. We refer you to “Operating and Financial Review and Prospects” for more information regarding our financial condition and results of operations.

We require substantial amounts of capital for our business operations, and if we fail to obtain needed capital, or there are restrictions on our ability to finance our operating companies, it may materially and adversely affect our growth prospects and future profitability

We require substantial capital to build, maintain and operate our telecommunications networks. We may also potentially require significant amounts of capital to acquire and invest in other telecommunications companies and spectrum rights. To the extent these expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our ability to obtain additional financing on favorable commercial terms will depend on a number of factors, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by telecommunications companies; and
- economic, political and other conditions in the markets where we operate.

Any new borrowings could include terms that restrict our financial flexibility, including the amount of debt we may incur in the future, or may restrict our ability to manage our business as we had intended. If we are unable to renew existing funding or obtain additional funding in a timely manner or on acceptable terms, our growth prospects, competitive position and future profitability could be materially and adversely affected.

In addition, our operating companies may require financing or guarantees from us to help fund their capital expenditures and working capital requirements. We may also face legal or administrative restrictions on our ability to finance operations. For example, in December 2006, the central bank of Thailand implemented an unremunerated reserve requirement on short-term capital inflows, under which financial institutions in Thailand are now required to withhold 30% of foreign currencies bought or exchanged against the Thai baht. Restrictions such as this can adversely affect our ability to provide funding to our operating companies. We cannot assure you that limitations on our ability to convert or transfer currencies to our operating companies would not have a material adverse effect on our financial condition and the results of our operations.

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Our major shareholders may take actions that are not in, or may conflict with, our other shareholders' best interests

Our largest shareholder is Hutchison Whampoa Limited, or Hutchison Whampoa, which as of June 15, 2007 held approximately 50.0% of our shares. In addition, Cheung Kong (Holdings) Limited, or Cheung Kong Holdings, which as of the same date held 49.97% of Hutchison Whampoa, directly held 1.1% of our shares through its wholly owned subsidiaries. Although Cheung Kong Holdings has, pursuant to Rule 13d-4 under the Exchange Act, expressly disclaimed beneficial ownership of those of our shares held by Hutchison Whampoa, the combined shareholding of Hutchison Whampoa and Cheung Kong Holdings exceeds 50%.

Our other major shareholder is Orascom Telecom Holding S.A.E., or Orascom Holding, which as of June 15, 2007 held approximately 19.2% of our shares. Individually, Hutchison Whampoa and Orascom Holding are each able to influence our business through their ability to significantly affect the outcome of matters put before shareholders for approval and through their respective representatives on our board of directors. Together, their combined shareholding exceeds 68%, which gives them the ability to control actions that require majority shareholders' approval.

Neither shareholder is obligated to exercise its rights as a shareholder in our best interests or the best interests of our other shareholders. Both major shareholders may engage in activities that conflict with such interests. We have entered into a non-competition agreement with Hutchison Whampoa that restricts Hutchison Whampoa from competing with us in certain markets. This agreement will terminate if Hutchison Whampoa's control of our shares falls below certain specified thresholds. See "Major Shareholders and Related Party Transactions—Related Party Transactions—Related Party Transactions with Hutchison Whampoa—Non-competition Agreement" for a discussion of the terms of the non-competition agreement. Orascom Holding is engaged in the telecommunications business in numerous countries and may compete directly or indirectly with us in the future. Orascom Holding has not entered into any non-competition agreement with us. If the interests of either of our major shareholder conflicts with the interests of our other shareholders, or if either major shareholder chooses to cause our business to pursue strategic objectives that conflict with the interests of our other shareholders, those other shareholders could be disadvantaged by the actions that Hutchison Whampoa, Orascom Holding, or the two major shareholders together, chooses to pursue. We cannot assure you that any conflict of interests and overlap of business activities and operations between Hutchison Whampoa or Orascom Holding, on the one hand, and us on the other hand, will not materially and adversely affect our financial condition, results of operations and prospects.

Furthermore, certain adverse events may occur if Hutchison Whampoa's equity interest in our company falls below specified thresholds, which is an event that would be beyond our control. For example, under a HK\$6 billion three-year senior secured revolving credit facility that we entered into in May 2005, it is a mandatory repayment event if Hutchison Whampoa ceases to own, directly or indirectly through its subsidiaries, at least 40% of our issued voting share capital. In addition, Hutchison Whampoa has the right to terminate brand license agreements that it has entered into with our operating companies if its indirect interest in those licensee operating companies falls below specified thresholds. We cannot assure you that if the relevant shareholding thresholds are breached that Hutchison Whampoa would not exercise these rights and that such an exercise will not materially and adversely affect our financial condition, results of operations and prospects. Similarly, Hutchison Whampoa has the right to terminate shared services that it provides to us if its indirect interest in us falls below specified thresholds, and it may also terminate shared services that it provides to any of our subsidiaries if we cease to consolidate that subsidiary in our consolidated financial statements.

In addition, we currently benefit from our ongoing relationship with Hutchison Whampoa and its other subsidiaries and affiliates through their global reach and relationships. We cannot assure you that Hutchison Whampoa will continue to allow us to have access to such benefits in the future.

We do not own all of the intellectual property rights necessary to operate our business, and if any of these intellectual property rights become unavailable to us, we could face disruptions in our operations

We do not own all of the intellectual property rights in the brand names that we use to market our services. We have arrangements with the Hutchison Whampoa group pursuant to which we have rights to use "3", "Hutch" and "Hutchison Telecom" and other trademarks that include the word "Hutchison" or derivations thereof royalty-free until the relevant change of control provisions as agreed between the relevant members of our group and the Hutchison Whampoa group are triggered. We use the 3 brand in Hong Kong, Macau and Indonesia, and the Hutch brand in Thailand and Sri Lanka. We also have been granted licenses to use certain trademarks from non-Hutchison Whampoa entities, notably the "Orange" brand, which we license from a subsidiary of Orange SA. We use the Orange brand for our mobile telecommunications operations in Israel. In addition, the "HT Mobile" trademark, which is used by our Vietnam operation, is owned by Hanoi Telecommunications Joint Stock Company, our partner in Vietnam.

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Hutchison Whampoa has the right to terminate its brand license agreements with our operating companies if its indirect interest in those licensee operating companies falls below specified thresholds. If these ownership thresholds are breached, which is an event that would be beyond our control, or if we breach the terms of our licenses with non-Hutchison Whampoa entities, we may have to renegotiate the terms of these trademark arrangements and/or pay royalties for the use of the relevant trademarks and domain names, or could lose the use of such trademarks and domain names altogether. We cannot assure you that the fees and terms of use will be commercially acceptable to us if we have to renegotiate these arrangements. If any of the brands under which we operate become unavailable to us, we could face disruptions in our operations and, as a consequence, our financial condition and the results of our operations could be materially and adversely affected due to the importance of the trademarks and domain names to the branding of our business operations.

The ability of our operating companies to generate earnings is important to our business, and any decline in the earnings of our operating companies or restrictions on our ability to transfer or convert currencies from the countries in which our operating companies are located could materially and adversely affect our earnings, cashflow and operational flexibility

We currently conduct all our operations through our operating companies. Most of our assets are held by, and substantially all of our earnings and cash flows are attributable to, our operating companies. Our sources of cash flows include dividends paid to us by our operating companies and shareholder loans repaid to us by our operating companies. If earnings from our operating companies were to decline or if our operating companies were unable to repay the shareholder loans, our earnings and cash flow could be materially and adversely affected.

In addition, disruption of the international foreign exchange markets may limit our ability to transfer or to convert currencies from the countries in which our operating companies are located into Hong Kong dollars and other currencies. Furthermore, the governments of certain countries in which we operate have instituted, and other countries may in the future institute, restrictive exchange rate policies that limit or restrict our ability to convert currencies into their respective currencies or to convert their respective currencies into other currencies or to transfer other currencies out of their jurisdictions. We cannot assure you that currency fluctuations or limitations on our ability to convert or transfer currencies would not have a material adverse effect on our financial condition and the results of our operations.

As a result of statutory or regulatory restrictions on foreign ownership, we do not own the majority of the voting stock in all of our operating companies and, as a result, we do not have complete control of these companies, which may limit our ability to cause these operating companies to take actions we believe would be beneficial to our shareholders

Governmental policy and/or regulations in some countries in which we currently operate or may operate in the future limit the nature and extent of our investments in those countries. For example, we may not own 50% or more of the equity of any company engaged in the provision of certain restricted services, which include telecommunications services, in Thailand. Moreover, in Vietnam, foreign ownership of an entity that operates a telecommunications network is prohibited, as a result of which we conduct our operations there through a business cooperation contract with a Vietnamese partner that owns the network.

As a result, our ownership interests in our operating companies in these countries do not in every instance provide us with the ability to control all actions that require shareholder approval and our ability to manage such operating companies may be hindered. Although we may participate in the management of such operating companies, we may not have the ability to prevent them from engaging in activities or pursuing strategic objectives that may conflict with our interests or overall strategic objectives. See “Information on the Company—Business Overview—Operating companies review—Thailand—Ownership” and “—Vietnam—Ownership.”

We rely upon an exemption to avoid being regulated as an investment company under the U.S. Investment Company Act of 1940 and may be required to take actions that are inconsistent with our business interests or objectives if we are no longer able to rely on that exemption

The U.S. Investment Company Act of 1940, or the 1940 Act, provides that a company is an investment company if, among other things, (i) more than 40% of the value of the company’s total assets is represented by investment securities, which, under the applicable definition, includes minority equity investments, or (ii) more than 50% of the value of the company’s total assets is represented by securities and/or cash. The 1940 Act contains substantive regulations with respect to investment companies, including restrictions on their capital structure, operations and transactions with affiliates, that would be incompatible with our operations.

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As the result of the receipt of cash proceeds from our sale of CGP Investments Holdings to Vodafone, we may have greater difficulty in avoiding being classified as an investment company. We believe that we would qualify for a one-year safe harbor exemption from classification as an investment company available under the 1940 Act for companies that are "transient" investment companies if we were required to rely upon the exemption. During this one-year period, we must reduce our holdings of cash and/or securities, increase our holdings of assets that are not investment securities or do both such things. These actions could affect our ability to implement our business strategy or cause us to suffer losses. In addition, we cannot assure you that we will be successful in reducing our holdings of cash and securities or increasing our holdings of assets that are not investment securities. If we need to rely on the one-year safe harbor exemption, we will not be able to utilize the exemption for a period of two years after the one-year exemption.

If we were deemed to be an investment company in the future, we would, among other things, effectively be precluded from making public offerings of our securities in the United States. This could impede our ability to raise additional capital or to implement our business plan.

We may be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes and U.S. holders of our shares may be subject to special rules regarding taxation because of our PFIC status

A non-U.S. corporation is classified as a PFIC if: (i) 75 percent or more of its gross income (including its pro rata share of gross income of any corporation of which it is considered to own 25 percent or more of the shares by value) in a taxable year is passive income, or (ii) 50 percent or more of its assets by value (including its pro rata interest in the assets of any company of which it is considered to own 25 percent or more of the shares by value) produce, or are held for the production of, passive income. The receipt of the cash proceeds from our sale of CGP Investments Holdings to Vodafone may cause the average value of our assets producing passive income to equal or exceed 50% for our 2007 and/or 2008 taxable years. The determination of PFIC status is made on an annual basis, and will depend on, among other factors, how we use the sale proceeds, when such use of the sale proceeds occurs, and, if necessary, the availability of a special relief provision under Section 1298(b)(3) of the US Internal Revenue Code of 1986, or the Code, for companies that temporarily hold substantial passive assets as a result of the disposition of an active trade or business, also known as the change of business exception.

To qualify for the change of business exception, which provides relief only for the year of disposition, we would need to satisfy the following conditions: (i) we have never previously been a PFIC; (ii) "substantially all" of the passive income for the year is attributable to proceeds from the disposition of one or more "active trades or businesses", as those terms are used and interpreted under the Code; and (iii) we are not a PFIC for either of the next two taxable years. We intend to seek guidance from the US Internal Revenue Service, or IRS, regarding the applicability of the change of business exception to our sale of CGP Investments Holdings in 2007. We cannot assure you that we will receive favorable guidance from the IRS.

We cannot assure you that we will not be a PFIC for 2007 or any subsequent taxable year. If we are required to rely on the change of business exception for 2007, assuming that we are eligible to rely upon it, then we will need to reduce our holdings of assets generating passive income, increase the average value of our non-passive assets, or do both such things so that less than 50% of the average value of our total assets in 2008 and 2009 are passive. These actions could affect our ability to implement our business strategy or cause us to suffer losses. In addition, we cannot assure you that we will be successful in reducing our holdings of passive assets or increasing our holdings of non-passive assets. If we are found to be a PFIC for 2008 or 2009, then we would be retroactively ineligible for the change of business exception, but may not know and will not be able to inform you of such determination until 2009 or 2010.

If we are a PFIC, U.S. shareholders will be subject to certain adverse U.S. federal income tax consequences with respect to, among others, (i) the tax rates for dividends, (ii) "excess distributions" and (iii) gains realized on the sale or other disposition of shares. The consequences of our being a PFIC are described further in "Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company Considerations."

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Risks Relating to Markets Where We Operate

The application of several aspects of regulations and policies on foreign ownership may be unclear, and changes in the regulations or policies, or their application or interpretation, could have a material adverse effect on our financial condition and results of operations

The application of several aspects of regulations and policies on foreign ownership in the markets in which we operate may be unclear. In addition, the regulators in the countries such as Israel, Thailand and Vietnam, in which we are subject to foreign ownership restrictions, may re-evaluate foreign ownership restrictions and other regulations applicable to the telecommunications and other sectors. In January 2007, the Thai Cabinet approved in principle a bill to amend certain provisions of the existing Foreign Business Act, 1999 to, among other things, prevent foreigners from engaging in a restricted business, such as the telecommunications business, through preference share structures that allow them to control the voting rights of more than half of the total votes of that company even though they have invested in less than half of the registered capital of that company. For a further description of the proposed amendment and how it could affect us, see “Information on the Company—Business Overview—Regulation—Thailand.”

These changes of law, regulation or policy, or clarifications of, or changes in, the application or interpretation of existing or proposed laws, regulations or policies could require us to remove or amend our existing arrangements and reduce our voting and/or economic interests in the relevant companies. Any such removal, amendment or reduction could affect our ability to implement our business strategy in the affected countries.

Further, we do not have complete control over whether those of our operating companies that are subject to foreign ownership restrictions are compliant with such restrictions. Compliance may be affected by whether other shareholders in such operating companies are domestic or foreign as determined in accordance with the applicable rules, regulations or license conditions.

If foreign ownership restrictions are determined to have been violated, monetary and criminal penalties could be imposed, and relevant licenses or agreements could be cancelled. Any of the foregoing could have a material adverse effect on our financial condition and the results of our operations.

Depreciation or fluctuation of the currencies in which we conduct operations relative to the Hong Kong dollar could adversely affect our financial condition and the results of our operations

If the currencies of various countries in which we conduct our operations fluctuate relative to the Hong Kong dollar, which we use as our reporting currency in our consolidated accounts, these fluctuations may result in exchange losses or gains and increases or reductions in our debt after translation into Hong Kong dollars. In 2006, we recorded a net exchange gain of HK\$9 million (US\$1.2 million) compared to a net exchange loss of HK\$18 million in 2005 and a gain of HK\$79 million in 2004.

Partner is exposed to, and currently engaged in, a variety of legal proceedings, including class action lawsuits.

Due to the legal environment of Israel and the scope and magnitude of Partner’s operations, Partner is subject to the risk of a large number of lawsuits, including class action suits by consumers which may be costly to defend and which may result in significant judgments against it. The Israeli Class Actions Law, 2006 and the 2005 amendment to the Israeli Consumer Protection Law, 1981, include provisions that expand the causes of action for which a class of litigants may bring suit, including with regard to any damages allegedly incurred prior to the effective date of these laws. These laws have reduced the requirements for certification of a class action lawsuit and the qualifications required to be a lead plaintiff in a class action lawsuit. These laws may increase the number of requests for approval of class actions and the number of class action suits against Partners, and may increase Partner’s legal exposure and legal costs in defending against such suits, which as a result may materially and adversely affect our financial results. Currently, Partner is engaged in a number of purported class action suits as a defendant, some of which are for substantial amounts.

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Volatility in social, political and economic conditions in the countries where we operate may adversely affect our business.

Many of our operating companies and a substantial portion of our total assets are located in countries, including Israel, Indonesia, Thailand and Sri Lanka, that have experienced social, political and economic volatility. For example, Israel was engaged in an armed conflict in July and August 2006 with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and which disrupted most day-to-day civilian activity in northern Israel. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on the business, financial condition or results of operations of our Israeli business. During an emergency in Israel, including a major communications crisis in Israel's national communications network, a natural disaster, or a special security situation, control of our network in Israel may be assumed by a lawfully authorized person in order to protect the security of the State of Israel or to ensure the provision of necessary services to the Israeli public. During such circumstances, the Israeli government also has the right to withdraw temporarily some of the spectrum granted to our Israeli business.

Furthermore, in September 2006, the Thai army staged a coup against the then-government, and in Sri Lanka there has been a sharp escalation in violence since late 2005 in the conflict between the Sri Lankan government and Tamil separatists. Developments in these countries and other countries in which we operate in the future, including uncertainties arising from economic liberalization and deregulation policies, future economic crises, outbreaks of hostility and political instability, may have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Telecommunications Industry Generally

The telecommunications industry is a highly regulated industry in which regulators' decisions may materially and adversely affect our financial condition and results of operations

Our business is highly regulated. In each of the countries in which we operate, we are subject to government regulation regarding licenses, competition, frequency allocation and costs and arrangements pertaining to interconnection and leased lines. Our business and operations could be materially and adversely affected by changes in laws, regulations or government policy affecting our business activities. For example, we are subject to regulations on our tariff structures in some jurisdictions where we operate. We cannot predict with accuracy or assure you on the timing, likelihood or likely magnitude of any future tariff adjustments generally or the extent of any potential impact such tariff adjustments would have on our business. We cannot assure you that our business, financial condition and the results of our operations will not be materially and adversely affected by any government-mandated tariff adjustments in the future.

In March 2005, the Israeli Communications Law (Telecommunications and Broadcasting), 1982, or the Telecommunications Law, was amended to require the Israeli Minister of Communications to implement a mobile number portability plan in Israel and, separately, a fixed number portability plan by September 2006. The number portability plan would permit customers in Israel to change their service provider to another network operator while retaining the same telephone number. Once implemented, we anticipate that number portability will provide network operators with the opportunity to transfer other operators' customers to their network, which will likely increase churn rates and may increase customer acquisition and retention costs.

Despite efforts to introduce the requisite technology and to coordinate the transition to number portability by September 2006, at present none of the cellular or fixed-line operators in Israel has implemented number portability. Partner and two other mobile telecommunications operators have filed a petition with the Israeli High Court of Justice requesting that the court order the Government of Israel and the Ministry of Communications to show cause for failing to amend the Telecommunications Law in order to postpone the number portability implementation deadline. The justifications for the petition include Partner's inability to comply with the implementation timeline due to the unique technological environment of the Israeli cellular market, the complex requirements of the Israeli regulator and the absence of a detailed plan as was originally contemplated by the law. Consequently, since September 2006, all relevant telecommunications license holders, including Partner, face the risk of claims for violating the Telecommunications Law and the terms of the general license without having the ability to comply with the law or the license. Individual customers have sought to intervene in the petition and have also filed a purported class action against Partner and other mobile and fixed-line operators based on their alleged failure to comply with the number portability requirements.

In May 2007 the Ministry of Communications of Israel announced that the latest implementation date for number portability would be December 1, 2007. The Ministry of Communications has, despite announcing the later date, stated that it is nonetheless considering imposing monetary sanctions on relevant telecommunication license holders, including Partner, in accordance with the Telecommunications Law for allegedly violating their obligations to implement number portability by September 2006.

The Ministry of Communications of Israel is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by foreign network operators' customers while in Israel using Partner's network as well as for calls made by Partner's customers using their handsets abroad. Because Partner considers roaming charges to be a significant source of revenue, such regulatory limits could adversely affect the company's revenues.

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In November 2006, Partner's license was amended in a manner that obligates it as of January 2007 to provide, in all calls made to its customers that are directed to voicemail, an announcement that the call is being directed to voicemail. Partner is not allowed to charge for a call terminated up to one second after the announcement is made. Such regulation has adversely affected its financial results.

In some cases, regulators may also be competitors. While regulators may have been granted powers to ensure a level playing field among the various mobile telecommunications operators, we cannot assure you that the relevant government will ensure a level playing field between government-owned companies and private operators.

Required licenses and permits may be difficult to obtain in those countries where we operate a network, and once obtained may be amended or revoked or may not be renewed

Our operation of telecommunications networks and the provision of related services are regulated to varying degrees by national, state, regional or local governmental and/or regulatory authorities. Our operating licenses specify the services we can offer and the frequency spectrum we can utilize for mobile operations. These licenses are subject to review, interpretation, modification or termination by the relevant authorities. We cannot assure you that the relevant authorities will not take actions that could materially and adversely affect us. Our operating licenses are generally renewable upon expiration. However, we cannot assure you that they will be renewed or that any renewal on new terms will be commercially acceptable to us. If we fail to renew any of our licenses, we may lose the ability to continue to operate the affected business, and the realizable value of our relevant network infrastructure and related assets may be materially and adversely affected.

The rules of some government regulatory authorities having jurisdiction over our operations require us to meet specified network build-out requirements and schedules. In addition, our licenses typically require satisfaction of various obligations, including minimum specified quality, service, coverage criteria and capital investment. Failure to comply with these obligations could result in the imposition of fines or the revocation or forfeiture of the license for that area. Furthermore, the need to meet scheduled deadlines may cause us to expend more resources than otherwise budgeted for a particular network build-out. We cannot assure you that we will be able to fully comply with the terms and conditions of these licenses and permits. In particular, some of our operations have been fined for failure to comply with certain of these terms and conditions within the specified time frame.

The deployment of our networks requires various approvals or permits from national, state, regional or local governmental and/or regulatory authorities, particularly in relation to establishing cell sites. These approvals and permits may include building, construction and environmental permits, antenna and mast deployment approvals and other various planning permissions. We have experienced, and may continue to experience, difficulties in obtaining some of these approvals and permits. For example, our Israeli business, like its competitors, has experienced difficulties in obtaining some consents and permits, especially those from local building authorities. As of December 31, 2006, approximately 20% of our antenna sites in Israel were operating without local building permits or applicable exemptions.

Failure to obtain cell sites could have an adverse effect on the extent, quality and capacity of our network coverage and on our ability to continue to market our products and services effectively. Our inability to resolve these issues in a timely manner could also prevent us from achieving or maintaining the network coverage and quality requirements contained in our license.

We are dependent on interconnection with our competitors' networks and associated infrastructure as well as roaming arrangements with other telecommunications operators

Our ability to provide commercially viable mobile and fixed-line telecommunications services depends, in part, upon our interconnection arrangements with other telecommunications operators. In particular, we are dependent on interconnection with our competitors' mobile and fixed-line networks and associated infrastructure for the successful operation of our business. The framework by which interconnection charges are made in certain jurisdictions where we operate are currently being reviewed by the relevant government authorities. Any change to the framework or the basis upon which interconnection charges are made is likely to require the renegotiation of our interconnection agreements. We cannot assure you that we will be able to maintain our interconnection agreements on terms that are commercially acceptable to us or that any material increase in the interconnection expenses would not have a material adverse effect on our financial condition and the results of our operations.

Our operating companies are also dependent upon roaming agreements with other telecommunications operators as a source of revenues when the other telecommunications operators' customers roam on our networks. If these roaming agreements were to terminate, or if the other telecommunications operators were to deploy incompatible technologies, our roaming revenues and profits may be materially reduced.

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Our allocated spectrum may be insufficient for the expansion of our mobile telecommunications business

The operation of our mobile telecommunications networks is limited by the amount of spectrum allocated to us in the countries where we operate. Allocation of spectrum is determined by the relevant governmental authorities in those countries. In determining spectrum allocation, governmental authorities generally seek to ensure choice of services, efficient use of spectrum and continuity of customer service while maintaining technology neutrality and providing a stable investment environment. Although we believe that our current spectrum allocation is sufficient for expected customer growth going forward, our future profitability may be materially and adversely affected if our allocated spectrum proves inadequate in the future for the expansion of our mobile telecommunications business.

Concerns about health risks relating to the use of mobile handsets may adversely affect our prospects

Media and other reports have linked radio frequency emissions from mobile handsets to various health concerns, including cancer, and to interference with various electronic medical devices, including hearing aids and pacemakers. Although we do not know of any definitive studies showing that radio frequency emissions cause health problems, concerns over radio frequency emissions may discourage the use of mobile handsets in the countries in which we conduct business, which could have a material adverse effect on our business, financial condition and results of operations. Various government authorities in the markets in which we operate could also increase regulation of mobile handsets and base stations as a result of these concerns. In addition, lawsuits have been filed in the United States against certain participants in the telecommunications industry alleging various adverse health consequences as a result of mobile handset usage, and we may be subject to similar litigation in the future. Research and studies are ongoing, and we cannot assure you that further research and studies will not demonstrate a link between radio frequency emissions and health concerns. Any negative findings in these studies could adversely affect the use of mobile handsets and, as a result, our future financial performance.

Risks Relating to Our ADSs and Ordinary Shares

Our board of directors may suspend voting rights attaching to some shares as necessary to avoid any of our subsidiaries or affiliates being in breach or default

Our articles of association provide that if any person directly or indirectly has or acquires an interest in a number of our shares that would or may, in the opinion of our directors, require a review or approval under, or which would or may result in any of our subsidiaries or affiliates (being any entity in which we directly or indirectly hold 5% or more of the issued share capital) being in breach or in default of, any applicable law, regulation or license, permit, consent or privilege held or enjoyed by any such subsidiary or affiliate, or any requirement of any governmental or regulatory authority, our directors have the discretion to suspend the shareholder's right to exercise the voting rights attaching to the affected shares in which the shareholder has an interest in respect of any resolution at any general meeting of our company. Our directors also have the ability to restrict the director(s) appointed by or at the direction of that shareholder, if any, to our board of directors from voting on any resolution or matter that concerns the activities of any affected entity or appointment of a director or the managing director of any affected entity. See "Additional Information—Memorandum and Articles of Association—Rights, Preferences, Restrictions Attaching to Shares and Changing the Rights of Shareholders—Voting Rights."

It may be more difficult for you to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, than if we were a corporation incorporated in the United States

We are incorporated in the Cayman Islands, and we conduct substantially all of our operations outside of the United States. In addition, substantially all of our assets are located outside the United States. Moreover, most of our directors and officers reside outside of the United States. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority in a court in the Cayman Islands. Cayman Islands law in this area may not be as established and may differ from provisions under statutes or judicial precedent in existence in the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against the management, directors or our major shareholder than would shareholders of a corporation incorporated in a jurisdiction in the United States. Therefore, it may be difficult or impossible for you to bring or enforce an action against us or against these individuals in the United States if you believe that your rights have been infringed under the securities laws or otherwise. In particular, the Cayman Islands courts are unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- in original actions brought in the Cayman Islands, to impose liabilities against us based on certain civil liability provisions of U.S. securities laws that are penal in nature.

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Our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law

Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. As a result, our ability to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court may be limited.

You may not be able to exercise your right to vote the ordinary shares underlying your ADSs

As a holder of our ADSs, you may instruct the depository of your ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depository to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw our ordinary shares underlying the ADSs you hold. However, you may not know about the meeting far enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your ordinary shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote, and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

Under the deposit agreement for the ADSs, the depository will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless we notify the depository that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the particular question would have a material adverse impact on our shareholders.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company, which could adversely affect your interests. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not receive distributions on our ordinary shares represented by ADSs or any value for them if it is illegal or impractical to make them available to holders of ADSs

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs

Your ADSs, represented by ADRs, are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may refuse to deliver, transfer or register transfers of your ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

ITEM 4. INFORMATION ON THE COMPANY

A. Business Overview

Group Overview

We are a global provider of mobile and fixed-line telecommunications services. We currently operate, or are rolling out, telecommunications services in eight markets around the world: Hong Kong, Macau, Israel, Thailand, Indonesia, Vietnam, Sri Lanka and Ghana. Prior to May 8, 2007, we provided mobile telecommunications services in India.

Notable developments during 2006 and 2007 included the following:

- On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries, for cash consideration of approximately US\$11,080 million before costs, expenses and interest payable by Vodafone. On May 8, 2007, we also entered into a supplemental deed with Vodafone pursuant to which Vodafone, in consideration for waiving certain potential claims against us under the sale and purchase agreement, was permitted to retain US\$352 million from the sale price to apply against certain specified liabilities which Vodafone might incur in connection with the interests that it had effectively acquired during a period of up to ten years following the date of completion of the sale. Having regard to the terms surrounding the retention and release of the amount retained by Vodafone, our board of directors has considered it prudent to make a full provision against recovery of any part of the amount retained by Vodafone.

Under the terms of the sale and purchase agreement that we entered into with Vodafone, we also agreed to restrictions on our ability to directly or indirectly carry on, engage in or acquire an economic interest in, any business in India that competes with the telecommunications business of Hutchison Essar for a period of three years from the date of completion of the sale.

In connection with the sale of CGP Investments Holdings, in March 2007 we entered into a conditional settlement agreement with Essar Teleholdings Limited, or Essar Teleholdings, and certain of its affiliates pursuant to which they agreed to, among other things: (i) refrain from doing anything that would prevent, delay or inhibit completion of the sale; (ii) use all reasonable endeavours to ensure that completion of the sale is achieved as soon as practically possible; (iii) waive any rights they have or claim to have in respect of certain matters including those related to the sale; and (iv) terminate certain agreements, alleged agreements and understandings relating to the relationship connected to Hutchison Essar. In consideration, upon completion of the sale, we agreed to make scheduled payments to an affiliate of Essar Teleholdings aggregating US\$415 million before interest, of which US\$373.5 million has now been paid.

As a result of the sale, we expect to realize an estimated pre-tax gain of approximately US\$9,000 million after taking into account the US\$415 million settlement amount payable to Essar Teleholdings, the US\$352 million amount retained by Vodafone, interest on the consideration paid to us by Vodafone, transaction costs and expenses. We also realized a net cash inflow of approximately US\$10,830 million before payment of the settlement amount to Essar Teleholdings.

During 2006, the Indian business represented 46% of our total turnover, 72% of our total operating profit and 42% of our total operating expenses. In addition, as of December 31, 2006, the Indian business held 40% of our total outstanding debt, all of which was effectively assumed by Vodafone upon completion of the sale of CGP Investment Holdings.

- On May 22, 2007, we declared a special dividend to shareholders equal to HK\$6.75 (US\$0.87) per share, or approximately HK\$32,230 million (US\$4,143 million) in aggregate, payable on June 29, 2007. The special dividend will be paid out of the proceeds from our sale of CGP Investments Holdings to Vodafone.
- In July 2006, Partner, our mobile telecommunication operator in Israel, acquired the transmission business of Med I.C.-1 (1999) Ltd., or Med-1, including its fiber-optic cable infrastructure comprising a network of approximately 900 kilometers of submerged and terrestrial transmission fiber for approximately NIS 71 million (US \$17.0 million).
- Also in July 2006, we sold our wholly-owned subsidiary Vanda IT Solutions & Systems Management Limited, or Vanda IT Solutions, which provided information technology solutions, and loans that we had extended to Vanda IT Solutions and its subsidiaries, to a wholly-owned subsidiary of our largest shareholder, Hutchison Whampoa.
- In October 2006, we were awarded a 3G license for Macau and subsequently began to upgrade our existing network to a 3G network. The license was issued with effect from June 5, 2007.
- In January 2007, Partner was granted a license for the provision of domestic fixed-line telecommunications services in Israel.
- Also in January 2007, we launched mobile telecommunications services in Vietnam under the brand name “HT Mobile”
- In March 2007, we launched mobile telecommunications services in Indonesia under the “3” brand.

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Using 2G GSM, CDMA, GPRS, and 3G platforms, we offer customers a wide variety of telecommunications services, ranging from basic voice and data services to multimedia services using advanced mobile technology.

Our 3G services in Hong Kong, Indonesia and Israel bring customers a wide range of content covering sports, news, entertainment and finance. In Israel and Hong Kong, we offer HSDPA technology, which permits significantly faster data transfer rates. Through the “X-Series” services, in Hong Kong we also provide our customers with access to a host of popular mobile broadband Internet applications.

In Thailand and Vietnam, we provide multimedia services over CDMA2000 1X networks.

Each of our businesses enjoys access to our global brands. We use the “3” brand in Hong Kong, Macau and Indonesia and the “Hutch” brand in Thailand and Sri Lanka. We previously used the the “Hutch” brand in India. In Israel, we use the “Orange” brand and in Vietnam we use the “HT Mobile” brand.

In 2006, we had total turnover of HK\$33,378 million (US\$4,290 million). Operating profit before disposal of investments and others was HK\$5,001 million (US\$643 million) and profit attributable to equity holders was HK\$201 million (US\$26 million). As of December 31, 2006, we had a total of approximately 29.6 million mobile customers. The following table sets forth the number of our mobile customers by market as of December 31, 2006.

Market	Number of Mobile Customers (thousands)
Hong Kong mobile (including Macau)	2,139
India	23,306
Israel	2,669
Thailand	728
Sri Lanka	559
Ghana	200
Total	29,601

In addition, our fixed-line operations had over 331,000 residential voice lines and approximately 237,000 residential broadband customers as of December 31, 2006.

Business strategy

Our main strategy is to focus on mobile telecommunications services markets with the potential for high growth, in terms of customers and/or the value of services provided. We believe that a combination of strong economic growth and favorable demographic profiles in these markets will result in sustained increasing demand for our services.

Following our sale of CGP Investments Holdings to Vodafone, we are very well capitalized and believe we are well placed to exploit opportunities as they arise. We intend to leverage our experienced management team and established track record of successfully developing and operating mobile telecommunications businesses to grow and diversify our turnover and profits. In particular, we intend to continue to acquire or invest selectively in new businesses in countries in which we already have a presence, as well as in new markets.

Our approach is to first identify markets experiencing strong economic growth, with favorable demographic profiles as well as low telecommunication penetration rates. We aim to establish and maintain leadership positions in our markets. We develop market position by building quality networks, offering competitive tariffs and providing customer-driven products and innovative service plans. We also seek to leverage the global buying power that comes from operating global networks. We believe this has allowed us to source high-quality network infrastructure at attractive prices to enable the efficient development of our businesses. We focus on attracting and maintaining knowledgeable local management, continuing technological innovation, and maintaining a strong reputation in the telecommunications industry.

We are able to modify these factors to suit the diverse markets that we serve. In Indonesia, for example, with its large population and low telecommunication penetration rates, we are focusing on network and service quality to establish a successful business that not only will make a significant contribution to our results in time but will also continue to show strong growth. In contrast, in markets where telecommunications services are more established, such as Hong Kong and Israel, we build strategically on our well-known brands and our reputation as an innovation leader. In these mature markets, we drive growth by meeting customer demand for the latest technology and newest applications.

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Services and products

We offer a variety of voice, video, data and value-added services over our mobile and fixed line networks. We operate 2G and 3G mobile networks using GSM, GPRS, CDMA and W-CDMA across our businesses. Second generation, or 2G, technology, usually refers to mobile telecommunications services using the 800/900-MHz and 1800-MHz spectrum. Third generation, or 3G, technology, usually refers to universal mobile telecommunications system, or UMTS. It can also refer to high-speed downlink packet access, or HSDPA, technology. Global system for mobile communications, or GSM, is a comprehensive digital standard for the operation of all elements of a cellular telephone system. General packet radio services, or GPRS, is a packet-based wireless communication system based on GSM that enables data transmission rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. Code division multiple access, or CDMA, is a method by which many users sharing the same radio channel can be distinguished by unique code numbers. Wideband code division multiple access, or W-CDMA, is the technology used in 3G UMTS systems.

Mobile telecommunications

We offer a range of services designed to meet the needs of the local market in which we operate. Specifically we offer:

- **2G.** In Hong Kong, Indonesia, Israel, Macau and Sri Lanka, we offer 2G services using GSM 800, 900 and/or 1800 spectrum. Our 2G services offer basic mobile telecommunications services such as: local voice; SMS, or short messaging system; MMS, or multimedia messaging system; IDD, or international direct dialing; and international roaming. We also offer a large variety of value-added services, including voicemail, caller identification display, call waiting, call forwarding and call blocking. To meet market demand for the faster transmission speeds required for wireless internet access and other applications, we have continued to invest in technology such as GPRS. GPRS modem cards provide subscribers with access to the internet, email and corporate networks.

We offer *BlackBerry*[™] wireless email services operating on our GSM, GPRS and 3G networks in Hong Kong and Israel. We were the first mobile telecommunications operator in Asia to offer *BlackBerry*[™] wireless email services, which provide corporate customers with an end-to-end encrypted wireless solution that includes integrated email, mobile telecommunications and electronic organizer features.

- **3G.** We launched 3G services in Hong Kong in January 2004, in Israel in December 2004 and Indonesia in March 2007. We were awarded a 3G license in Macau in October 2006 and subsequently began to upgrade our existing network there to a 3G network. The 3G license for Macau was issued with effect from June 5, 2007. Our 3G services are capable of transferring data at significantly faster speeds as compared to 2G networks. In addition to traditional voice services, 3G technology provides real time person-to-person mobile video calls, the ability to stream and download music and video clips and other multimedia content, as well as other data services.

As of December 31, 2006, in Hong Kong our 3G services offered 33 service channels providing, among other things, daily updates of news, weather, the Hong Kong stock market, video clips of football highlights, music video clips and movie trailer video clips. In Hong Kong, we also are partnered with various content providers such as Reuters, i-Cable and TVB to provide local and world news reports, traffic updates and popular television series highlights. We launched the X-Series services in Hong Kong in January 2007. The X-Series provides our customers with access to a host of popular mobile broadband Internet applications, including MSN and Google Mobile Search, via their "3" mobile handsets. We launched HSDPA services in Hong Kong in the fourth quarter of 2006 and are now providing territory-wide HSDPA coverage. HSDPA is a technological enhancement to our 3G services which, through a HSDPA data card modem, enables customers to access our 3G services at higher speeds.

In Israel, our 3G services include video calls and a portal of content services including video-based services under the "obox live" brand. In March 2006, we launched HSDPA to the business sector. We launched HSDPA with limited coverage in the center of Israel and plan to expand the coverage area gradually.

In Indonesia, we provide a UMTS infrastructure over our GSM 1800 network in key cities including Jakarta, Bandung and Surabaya.

- **CDMA.** We offer CDMA2000 1X networks in Thailand, Vietnam and Ghana. We offer basic mobile telecommunications services such as: local voice; SMS, MMS, IDD, and international roaming. We also offer a large variety of value-added services, including voicemail, caller identification display, call waiting, call forwarding and call blocking. CDMA2000 1X technology provides the ability to download music and other multimedia content, as well as other data services. We believe that CDMA2000 1X technology provides significant improvements in voice quality and data download compared to 2G technology.

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Fixed-line telecommunications

In Hong Kong, we provide a comprehensive range of fixed-line telecommunication services to retail customers (business and residential) as well as wholesale customers such as other telecommunications operators.

- **Retail.** We offer fixed-line local voice and fax services, as well as a wide range of value-added services, such as call waiting and call forwarding, to residential and business customers. We also provide IDD voice and fax services, international calling card accounts, prepaid phone cards and personal number services to these customers. In addition, we offer residential broadband Internet access as well as broadband Internet access to business customers and data connectivity for large corporations, including many financial institutions, and governmental and quasi-governmental bodies. We also offer data center facilities, managed hosting solutions, operations outsourcing and disaster recovery solutions for both local and multinational corporations.
- **Wholesale.** We offer a range of wholesale fixed-line telecommunications services, including connectivity for mobile telecommunications operators, leased lines for telecommunications operators, ISPs and other international wholesale customers, and IDD voice services to international carriers.

Marketing strategy and brand

Each of our businesses enjoys access to our global brands, with our principal focus being the “3” family of brands. We use the “3” brand in Hong Kong, Macau and Indonesia and the “Hutch” brand in Thailand and Sri Lanka. In Israel, we use the “Orange” brand and in Vietnam we use the “HT Mobile” brand.

In India, Hutchison Essar used the “Hutch” brand. Following our sale of CGP Investments Holdings to Vodafone, Hutchison Essar has the right to continue using the “Hutch” brand for up to three years from the date of completion of the sale.

Our overall marketing strategy is to distinguish our brands from other telecommunications service providers by the quality of our products and, where applicable, the multimedia services offered. Other aspects of our marketing strategy depend on the nature of each market.

Tariff plans

We offer different plans to meet the needs of different user segments. Our postpaid plans include a monthly fee that bundles voice services with a variety of value-added services such as voice mail, MMS, SMS and fax mail services. Additional charges are levied for other value-added services including IDD services and roaming services. We also offer several prepaid plans. Prepaid customers purchase a rechargeable prepaid SIM card for a specified amount of airtime and they may also enjoy additional value-added services. SIM, or subscriber identity module, is a small card or chip provided to network subscribers that is inserted into a handset. The SIM uniquely identifies a network subscriber and stores the subscriber’s personal phone book, sent and received text messages, network security codes and other programs that enable additional network features.

We offer postpaid 3G services. 3G tariff plans charge different monthly fees according to the needs of different user segments. These plans include a monthly fee that bundles voice services, video calls, streaming or downloads of multimedia clips and other data services. Additional charges are levied for IDD, roaming and other value-added services. We also offer prepaid 3G services in Hong Kong and Indonesia, providing voice services, video calls, streaming or downloads of multimedia clips, roaming and other data and value-added services.

Sales and distribution

We have developed extensive sales and distribution networks using both our own and third-party operations to market our mobile telecommunication service products. We have dedicated retail outlets in Hong Kong, Macau, Israel, Indonesia, Vietnam and Thailand at which customers can select mobile phones and accessories, make inquiries and subscribe for services. In addition, we utilize other leading distributors, specialist and general retail outlets to sell our services. In most of our markets, we are actively involved in sourcing and selling handsets. In all of our markets, access to wide sales and distribution outlets of good quality is critical to the success of the business. For business customers, we typically use teams of direct sales agents.

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Our fixed-line operations in Hong Kong normally utilize internal sales teams to market, sell and deliver their services and products. This enables the maintenance of quality marketing and distribution of services and products in a cost-effective and cost-efficient manner. In addition, our fixed-line operations also make use of various other sales and distribution channels from time to time to complement their internal sales teams, including retail outlets of our mobile business, retail shops within the Hutchison Whampoa group, and external sales agents.

Operating companies review

Hong Kong and Macau mobile telecommunications business

Overview

In Hong Kong we provide 2G CDMA and GSM dual band and 3G mobile telecommunications services, all under the “3” brand. In Macau we provide 2G GSM dual band mobile telecommunications services under the “3” brand. In October 2006, we were awarded a 3G license for Macau and are in the process of building out a 3G network there. The 3G license for Macau was issued with effect from June 5, 2007. During 2006, we maintained our position as one of the largest mobile telecommunications operators in Hong Kong in terms of customer numbers, and together with Macau, provided services to approximately 2.1 million customers as of December 31, 2006.

We are the largest 3G service provider in Hong Kong and were the first 3G service provider in Hong Kong, having launched 3G services in January 2004. Our 3G network in Hong Kong covers 99.9% of the population and we now provide territory-wide HSDPA coverage.

We have been providing GSM dual band mobile telecommunications services in Macau since August 2001, and in 2006 were the second largest provider of mobile telecommunications services. Our business in Macau benefited from the significant cross-border visitor traffic from Hong Kong and China, where SMS is an important means of communication. Having been issued a 3G license in Macau, we will deploy W-CDMA technology and upgrade our existing network in Macau to a HSDPA network.

The following table sets out market and operating data for our mobile services in Hong Kong and Macau as of the dates or for the periods indicated:

Our Mobile Services in Hong Kong and Macau

	As of or for the year ended December 31,		
	2004	2005	2006
Total customers (in millions) ⁽¹⁾	1.86	1.97	2.14
Growth in total customers (%)	8.1	5.9	8.6
Total turnover (in HK\$ millions)	3,714	3,837	4,199
Growth in total turnover (%)	6.6	3.3	9.4
Blended average revenue per user (ARPU) (in HK\$) ⁽²⁾	151	152	152
Blended minutes of use (MOU) (in minutes) ⁽³⁾	387	432	469
Blended churn (%) ⁽⁴⁾	4.6	4.3	4.3

- (1) Total customers comprise postpaid customers and prepaid customers who have a SIM or USIM that has access to the network for any purpose, including voice, data or video services and that have not been used up or expired at end of the reporting period.
- (2) Blended ARPU is calculated as the total service revenues during the period, divided by the weighted average number of activated customers in that period, on a twelve month weighted basis.
- (3) Blended MOU is calculated by the total minutes carried over the network (2G total airtime usage plus 3G voice and video usage, including both inbound and outbound roaming during the period) divided by the weighted average number of activated customers for the period, on a twelve month weighted basis.
- (4) Blended churn represents the average of the churn rates for each month in the period, which are calculated by dividing the number of disconnections (net of reconnections and internal migration between networks) for the relevant period by the average number of customers at the beginning of such period.

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Products and services

In Hong Kong and Macau, we offer basic mobile telecommunications services such as local voice, SMS, MMS, IDD and international roaming. International voice roaming is currently available in 247 destinations, with data roaming available in 131 destinations and video roaming in 51 countries.

We provide the largest array of 3G video mobile phones in Hong Kong. At the end of 2006, we offered 58 models and 115 color choices. We work with over 130 3G content providers from all over the world, enabling us to deliver a rich and diverse portfolio of content.

In June 2006, we acquired from NTT DoCoMo the right to use its integrated i-mode services package for deploying i-mode service in Hong Kong and Macau. i-mode is a service developed by NTT DoCoMo that allows mobile users to send and receive e-mail and access online services and an array of information from i-mode servers.

We began offering HSDPA services in the fourth quarter of 2006 and we now provide territory-wide HSDPA coverage in Hong Kong.

We also launched the "X-Series" services in Hong Kong in January 2007. The X-Series provides our customers with access to a host of popular mobile broadband Internet applications, including MSN and Google Mobile Search, via their "3" mobile handsets.

Ownership

We have a 70.9% interest, and NTT DoCoMo, Inc., or NTT DoCoMo, and NEC Corporation, or NEC, each owns an indirect shareholding of 24.1% and 5%, respectively, in Hutchison Telephone Company Limited, our operating company for 3G and 2G services in Hong Kong and Macau. NEC is currently a supplier of 3G infrastructure systems and 3G handsets for the operations of our 3G network in Hong Kong. NEC also provides managed services, including network operation and maintenance, radio site engineering and site administration for our 2G networks in Hong Kong and Macau and our 3G networks in Hong Kong.

NTT DoCoMo and NEC each entered into shareholders' agreements dated November 8, 2002 with Hutchison Whampoa in respect of their respective shareholdings in Hutchison Telephone and two other subsidiaries. The shareholders' agreements contain customary provisions dealing with matters such as voting rights, board control, funding obligations and restrictions on share transfers. In addition, NTT DoCoMo has the right under the shareholders agreements to participate in an initial public offering of any subsidiary of Hutchison Whampoa, including any subsidiary of ours to the extent that it would also be deemed to be a subsidiary of Hutchison Whampoa, substantially all of whose business interests comprise telecommunications or multimedia interests and which directly or indirectly holds an interest in our operating companies for 2G and 3G services in Hong Kong and Macau. NTT DoCoMo is entitled to exchange its existing shareholding in these operating companies for shares in the company to be listed so that the value of NTT DoCoMo's participation in such company is at least equal to the value of NTT DoCoMo's investment in these operating companies.

Pursuant to a pass-through agreement between our company and Hutchison Whampoa, the rights and obligations of Hutchison Whampoa under the shareholders' agreements with NTT DoCoMo and NEC (as supplemented by an agreement between Hutchison Whampoa and NEC as described below) have been passed through to us, subject to limited exceptions stated therein. Under the pass-through agreement, Hutchison Whampoa agreed, among other things, to indemnify us from and against all claims and liabilities in connection with any antecedent breach by Hutchison Whampoa of the shareholders' agreements occurring prior to the date of our listing on the Hong Kong Stock Exchange.

Other than as described above, there is currently no equipment or financing commitment from either NTT DoCoMo or NEC in connection with our Hong Kong mobile operations. We expect NEC to continue to be a supplier of 3G infrastructure systems and 3G handsets in Hong Kong and to provide managed services with respect to our networks in Hong Kong and Macau. We have also entered into an agreement with NTT DoCoMo enabling us to use its integrated i-mode services package for deploying i-mode service in Hong Kong and Macau.

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Hong Kong and Macau mobile telecommunications markets

As of December 31, 2006, Hong Kong had a mobile phone penetration rate of over 120%, reflecting Hong Kong's high number of resident customers with multiple subscriptions as well as business and tourist customers. There were approximately 8.6 million mobile phone subscriptions out of a total population of approximately 7.0 million in Hong Kong as of December 31, 2006.

Based on key statistics of radio communication and telecommunications services available from the website of the Macau government's Office for the Direcção dos Serviços de Regulação de Telecomunicações, or DSRT, there were approximately 636,000 mobile telecommunications customers in Macau as of December 31, 2006, representing a penetration rate of over 100%. We expect that the penetration rate will continue to grow as a result of deregulation.

Competition

We face significant competition in the Hong Kong mobile telecommunications market, which in 2005 saw significant acquisitions by larger telecommunications operators and consolidation. In 2006 there were four other 2G mobile telecommunications operators in Hong Kong, compared to five at the beginning of 2005: China Mobile Peoples Telephone Company Limited, or Peoples, which is a wholly-owned subsidiary of China Mobile, China's largest mobile telecommunications operator; SmarTone Mobile Communications Limited, or SmarTone, which is Vodafone's exclusive partner in Hong Kong; PCCW Mobile HK Limited (formerly SUNDAY o/b Mandarin Communications Limited), or PCCW Mobile, which is wholly-owned by PCCW-HKT Telephone Limited, or PCCW, Hong Kong's incumbent fixed-line operator; and CSL New World Mobility Limited, or CSLNWM, which was formed as a joint venture company pursuant to the merger of two mobile telecommunications operators, Hong Kong CSL Limited and New World Mobility Limited, that was completed in April 2006.

We are one of the largest mobile telecommunications operators in Hong Kong in terms of number of customers. However, the presence of five mobile telecommunications operators serving a market that has one of the world's highest penetration rates for customers of mobile telecommunications services makes the Hong Kong market highly competitive. Mobile telecommunications operators in Hong Kong have engaged in price competition in order to win market share from the other operators.

Out of the four 3G license holders in Hong Kong, we were the first telecommunications operator to have launched 3G services, in January 2004. CSLNWM and SmarTone both rolled out their 3G services in December 2004. The fourth 3G license holder, PCCW Mobile, launched its 3G data services in June 2005 and started offering 3G voice service on a trial basis in February 2006 by engaging its parent company, PCCW, to market the service under the brand name of "PCCW Mobile". It is expected that competition in the 3G mobile telecommunications services market will intensify over time.

In Macau, there are currently three other mobile telecommunications operators. Until 1999, the telecommunications industry in Macau operated under a monopoly environment. The largest operator is Companhia de Telecomunicações de Macau S.à r.l., or CTM, the previous monopoly mobile telecommunications operator. As of December 31, 2006, we were the second largest mobile telecommunications operator in Macau. In October 2006, 3G licenses were awarded for Macau to a subsidiary of China Unicom, which is one of China's largest mobile telecommunications operators, CTM and us. The 3G license for Macau was issued to us with effect from June 5, 2007. To date no operator has launched 3G services in Macau.

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Spectrum and mobile telecommunications networks

We provide 3G services in Hong Kong using W-CDMA technology. We became Hong Kong's first 3G mobile telecommunications services provider in January 2004.

Following the award of a 3G license in Hong Kong in October 2001, we obtained one block of paired spectrum of 2 x 14.8 MHz and one block of 5 MHz unpaired spectrum at the 1900 to 2200 MHz spectrum bands. The Hong Kong government has introduced an open network access framework, in which 3G licensees have to make available up to 30% of the capacity of their networks for use by non-affiliated mobile virtual network operators and service providers. See “—Regulation—Hong Kong—Licenses” for a description of how network capacity is calculated.

We use GSM and CDMA mobile telecommunications networks for our 2G operations in Hong Kong. Currently, the vast majority of our 2G customers in Hong Kong use our GSM dualband network, which allows radio communications to and from customer handsets to switch seamlessly between the 900 MHz spectrum and 1800 MHz spectrum bands resulting in enhanced network quality and capacity. We also offer GPRS technology in Hong Kong, which utilizes GSM frequencies. Our CDMA network in Hong Kong deploys a 2.5G CDMA IS95B packet data transmission technology, which offers data transmission speeds of up to 64 Kbps. For a more detailed discussion of spectrum allocation in Hong Kong, see “—Regulation—Hong Kong—Licensing framework—Spectrum allocation” and “—Regulation—Hong Kong—Licenses.”

We currently hold two 2G licenses in Hong Kong. The first license, under which we provide both GSM service and CDMA service in the 800/900 MHz radio spectrum band, expires for CDMA service in November 2008 and for GSM service in November 2020. The second 2G license expires in September 2021. Our 3G license expires in October 2016.

We use GSM mobile telecommunications networks for our 2G operations in Macau. Following the issuance of a 3G license in Macau in June 2007, we will deploy W-CDMA technology and upgrade our existing network in Macau to a HSDPA network.

Hong Kong fixed-line business

Overview

We offer local and IDD voice call services, broadband Internet access and various data transmission services to business and residential customers in Hong Kong through Hutchison Global Communications Limited, or Hutchison Global Communications, a subsidiary of Hutchison Global Communications Holdings. In July 2005, Hutchison Global Communications Holdings, which was previously our 52.5%-owned subsidiary and listed on the Hong Kong Stock Exchange, became our wholly-owned subsidiary following the privatization of the company. The listing of the shares of Hutchison Global Communications Holdings on the Hong Kong Stock Exchange was withdrawn in July 2005.

We are one of the largest fixed-line telecommunications operators in Hong Kong, with over 331,000 residential voice lines as of December 31, 2006. We are also a broadband Internet service provider, with approximately 237,000 residential broadband Internet customers in Hong Kong as of December 31, 2006.

We own and operate what we believe is the largest fiber-optic building-to-building telecommunications network in Hong Kong, with approximately 4,900 kilometers of linear ducting and over 860,000 kilometers of core fiber-optic cable. Fiber-optic networks are able to support a higher volume of traffic at faster transmission speeds for Internet and data communications compared to traditional copper cable networks. Using this fiber-optic network, we have been able to gain a firm foothold in the local fixed network industry, with the delivery of efficient and reliable services to business and residential customers, schools, hospitals, local community organizations, governmental bodies and other network carriers.

Part of this fiber-optic network is attributable to the efforts of our subsidiary PowerCom Network Hong Kong Limited, which utilizes the electricity distribution system to provide broadband connections. This provides us with a cost-effective “last-mile” solution for installing broadband Internet services in residential estates, hotels and service apartments.

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The following table sets out certain market and operating data for our fixed-line services for the periods indicated:

Our Fixed-line Services in Hong Kong

	As of or for the year ended December 31,		
	2004	2005	2006
Total residential voice lines (in millions)	0.25	0.30	0.33
Growth in total residential voice lines (%)	17	22	10
Total residential broadband lines (in millions)	0.17	0.22	0.24
Growth in total residential broadband lines (%)	47	23	9.1
Total turnover (in HK\$ millions)	1,870	2,204	2,406
Growth in total turnover (%)	15	18	9.2

Products and services

Our fixed-line operation pioneered the integration of traditional and new technologies in Hong Kong by offering services which combined basic telecommunications services with video phones. We also offer one of the fastest bi-directional residential broadband services available in Hong Kong.

Ownership

In July 2005, Hutchison Global Communications Holdings, which was previously our 52.5%-owned subsidiary and listed on the Hong Kong Stock Exchange, became our wholly-owned subsidiary following the privatization of the company. We paid approximately HK\$475.1 million in cash (including HK\$458.8 million that we paid to the Hutchison Whampoa group to transfer 60,371,099 of our shares owned by the Hutchison Whampoa group to shareholders of Hutchison Global Communications Holdings on our behalf) and issued a total of 252,546,209 new ordinary shares as consideration for the minority shareholders' stock. The listing of the shares of Hutchison Global Communications Holdings on the Hong Kong Stock Exchange was withdrawn in July 2005.

Hong Kong fixed-line telecommunications market

As of December 31, 2006, there were approximately 3.8 million telephone exchange lines in Hong Kong, including approximately 370,000 fax lines, in a territory with a total population of approximately 7.0 million. Telephone density was approximately 55 lines per 100 people.

In the Hong Kong Internet market, as of December 31, 2006 there were approximately 940,000 registered customer accounts with dial-up Internet access and approximately 1.78 million registered customer accounts with broadband Internet access.

Competition

In the fixed-line business in Hong Kong, we face competition from four other fixed-line telecommunications operators, including PCCW. By far the largest fixed-line telecommunications operator in Hong Kong, PCCW is Hong Kong's previous monopoly carrier. Other competitors include: Wharf T&T Limited, or Wharf T&T; New World Telecommunications Limited, or NWT; and Hong Kong Broadband Network Limited, or Hong Kong Broadband. Unlike us, Wharf and NWT rely more heavily on Type II interconnections provided by PCCW-HKT in offering voice services. For a description of Type II interconnections, see "—Regulation—Hong Kong—Key industry regulatory issues—Fixed-line interconnection."

In the Hong Kong Internet service provider market, we face competition from the same four companies who compete with us in the fixed-line telecommunications market: PCCW, which markets its services under the "Netvigator" brand name, Wharf T&T through its subsidiary i-Cable WebServe Limited, NWT and Hong Kong Broadband. PCCW's "Netvigator" is the leading Internet service provider in Hong Kong, with more than 50% market share.

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India

Overview

On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries. We received cash consideration of approximately US\$11,080 million before costs, expenses, retention amounts and interest payable by Vodafone; in connection with the sale we also made settlement payments to an affiliate of Essar Teleholdings.

We agreed with Vodafone that for a period of three years from completion of the sale, we would not directly or indirectly carry on or become economically interested in, within India, any business carried on in competition with the business as carried on by Hutchison Essar, including the provision of telecommunications services for voice, data or video and/or the establishment and operation or maintenance in India of related infrastructure, facilities or equipment. Specifically excluded from those restrictions, among other things, were operating call centre or data centre services, establishing, owning or leasing, and maintaining and operating, international telecommunications capacity of whatever transmission media outside India and up to any related landing points in India and providing India mobile roaming services to our international customers through agreements with telecommunications operators.

Hutchison Essar provides 2G services using GSM technology under the “*Hutch*” brand. Following our sale of CGP Investments Holdings to Vodafone, Hutchison Essar has the right to continue using the “*Hutch*” brand for up to three years from the date of completion of the sale.

Hutchison Essar is a mobile telecommunications operator in Mumbai which in turn holds substantially all of the issued shares in seven mobile telecommunications operating companies in other locations in India. We refer to these mobile telecommunications operators collectively as “Hutchison Essar.”

Hutchison Essar experienced considerable customer growth in recent years. As of December 31, 2006, it had 23.3 million customers, making it India’s third largest private mobile telecommunications operator based on monthly market share data published by the Cellular Operators Association of India, or COAI, and the Association of Unified Telecom Service Providers of India, or AUSPI.

There are 23 license areas in India. As of December 31, 2005, Hutchison Essar held licenses for 13 of these license areas. In January 2006, Hutchison Essar increased its coverage to 16 license areas when it completed the acquisition of the entire issued share capital of BPL Mobile Cellular Limited (subsequently renamed Hutchison Essar Cellular Limited), or HECL, a licensee for GSM mobile services in the Indian telecommunications license areas of Maharashtra, Tamil Nadu and Kerala. In October 2006, Hutchison Essar completed the acquisition of Essar Spacetel Private Limited, or Spacetel, which had pending applications for licenses in the seven remaining license areas not covered by Hutchison Essar’s licenses: Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir. As of December 31, 2006, all of these licenses, with the exception of the licence for Madhya Pradesh, had been granted. A letter of intent, which is usually a precursor to the issuance of a license, was issued to Hutchison Essar with respect to Madhya Pradesh on March 5, 2007.

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The following table sets out certain market and operating data for Hutchison Essar as of the dates or for the periods indicated:

Hutchison Essar Services in India

	As of or for the year ended December 31,		
	2004	2005	2006
Total customers (in millions) ⁽¹⁾	7.16	11.4	23.3
Growth in total customers (%)	74.6	59.4	104.4
Total turnover (in HK\$ millions)	7,093	9,996	15,455
Growth in total turnover (%) ⁽²⁾	57.7	40.9	54.6
Blended ARPU (in INR) ⁽³⁾	588	538	428
Blended MOU (in minutes) ⁽⁴⁾	340	362	404
Blended churn (%)	7.7	5.9	5.0

- (1) Total customers comprise postpaid customers and prepaid customers who have a SIM that has access to the network for any purpose, including voice or data services and that have not been used up or expired at end of the reporting period.
- (2) Blended ARPU is calculated as the total service revenues during the period, divided by the weighted average number of activated customers in that period, on a twelve month weighted basis.
- (3) Blended MOU is calculated by the total minutes carried over the network (including both inbound and outbound roaming during the period) divided by the weighted average number of activated customers for the period, on a twelve month weighted basis.
- (4) Blended churn represents the average of the churn rates for each month in the period, which are calculated by dividing the number of disconnections (net of reconnection and internal migration between networks) for the relevant period by the average number of customers at the beginning of such period.

Products and services

Voice continues to be the main revenue generator in India. In addition, Hutchison Essar offers basic mobile telecommunications services such as SMS, IDD and international roaming. It also offers Blackberry service.

Acquisitions

BPL Acquisitions

In September 2005, Hutchison Essar entered into a binding conditional term sheet with BPL Communications Limited, Capital Global Limited and Essar Teleholdings to purchase from them 99.998% of the issued share capital of BPL Mumbai, a licensee for GSM mobile services in the Mumbai telecommunications license area, and the entire issued share capital of HECL, a licensee for GSM mobile services in the telecommunications license areas of Maharashtra, Tamil Nadu and Kerala. The aggregate consideration, substantially all of which was paid in advance, was approximately INR25,115 million as at December 31, 2005 plus interest, before adjustments. Including the assumed debt of HECL and BPL Mumbai, the total consideration was approximately INR50,649 million. Hutchison Essar subsequently entered into share purchase agreements in November 2005 and December 2005 with respect to the acquisition of HECL and BPL Mumbai, respectively.

In January 2006, Hutchison Essar completed the acquisition of HECL.

The deadline for completion of the acquisition of BPL Mumbai was extended from June 30, 2006 to July 31, 2006. Completion was conditional upon, among other things, regulatory approval from the Department of Telecommunications of India. As of July 31, 2006, this regulatory approval had not been obtained. The regulatory approval requirement is described in further detail in “—Regulation—India.” Under the terms of the BPL Mumbai share purchase agreement, as amended, if the acquisition of BPL Mumbai had not been completed by July 31, 2006, Hutchison Essar was entitled to arrange for a bona fide sale of BPL Mumbai to a third party in the most efficient manner possible at the time. The proceeds of such a sale would be applied so that the parties who had contracted to sell BPL Mumbai to Hutchison Essar would receive an amount equal to the consideration payable to them by Hutchison Essar, less any advances that had already been paid to them by Hutchison Essar. The remainder would go to Hutchison Essar.

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On July 31, 2006, Hutchison Essar issued a notice to the sellers of BPL Mumbai notifying them that all conditions precedent to completion of the BPL Mumbai share purchase agreement had been fulfilled and satisfied or waived by Hutchison Essar and called for completion to take place on July 31, 2006. Hutchison Essar had already paid approximately INR 16,000 million (US\$359 million) to the vendors, representing substantially all of the purchase price. The sellers failed to undertake completion and on August 1, 2006, the sellers of BPL Mumbai issued a notice to Hutchison Essar purporting to terminate the share purchase agreement. Hutchison Essar subsequently obtained an injunction restraining the sellers under the BPL Mumbai share purchase agreement from selling or otherwise dealing in the shares of BPL Mumbai until four weeks after constitution of an arbitration panel to adjudicate the dispute. Hutchison Essar issued a notice to arbitrate to the vendors on November 24, 2006. The arbitration panel was constituted as of February 5, 2007 and extended the injunction pending the next hearing.

Spacetel Acquisition

In September 2005, Hutchison Essar entered into a conditional agreement with Essar Teleholdings and its subsidiary to purchase from them the entire issued share capital of Spacetel, the applicant for unified access (basic and mobile) services licences in seven remaining license areas in which Hutchison Essar did not operate: Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir. The consideration was INR255 million. The acquisition of Spacetel was completed in October 2006.

India Call Center Acquisition

In January 2006, CGP Investments Holdings entered into an agreement with Hutchison Call Centre Holdings Limited, or HCCH, an indirect subsidiary of Hutchison Whampoa, to acquire the entire issued share capital of Hutchison Tele-Services (India) Holdings Limited, or Hutchison Tele-Services, which, through its wholly owned subsidiary, 3 Global Services Private Limited, or 3 Global Services, operates a telecommunications services call center business in India. The total consideration was US\$14.2 million. The acquisition was completed in February 2006. 3 Global Services provides call center services to members of the Hutchison Whampoa group, as described in “Major Shareholders and Related Party Transactions—Related Party Transactions—Related party transactions with Hutchison Whampoa—Acquisition of call center from the Hutchison Whampoa group.” Under the terms of the acquisition agreement, CGP Investments Holdings granted HCCH a call option to purchase, and HCCH granted CGP Investments Holdings a put option to sell, the entire issued share capital of Hutchison Tele-Services at an agreed strike price. In September 2006, CGP Investments Holdings and HCCH amended these put and call options so that they related to the call center business of 3 Global Services rather than the shares of Hutchison Tele-Services. However, any options, subscription rights, pre-emptive rights or other similar rights held by 3 Global Services relating to the securities of Hutchison Essar, or any person with a direct or indirect interest in Hutchison Essar, were excluded from the business of 3 Global Services for purposes of the amended put and call options and would not be transferred to HCCH with the call center business. Because of the put and call arrangements that were in place in respect of Hutchison Tele-Service’s shares and then amended to relate to the call center business of 3 Global Services, the financial results from the call center business of 3 Global Services have not been incorporated into our 2006 accounts. Hutchison Tele-Services and 3 Global Services are subsidiaries of CGP Investments Holdings and therefore were effectively acquired by Vodafone when Vodafone acquired CGP Investments Holdings from us in May 2007.

Acquisition of Omega Telecom

In June 2006, our wholly-owned subsidiary Hutchison Telecommunications (India) Limited, or HT India, entered into share purchase agreements with members of the Hinduja group of companies to purchase IndusInd Telecom Network Limited (subsequently renamed Omega Telecom Holdings Private Limited), or Omega Telecom, for an aggregate purchase price of US\$450 million. Omega Telecom held 5.11% of the issued share capital of Hutchison Essar. HT India completed the acquisition of 45.79% of Omega Telecom on June 30, 2006. Under the terms of the share purchase agreements, HT India was entitled to procure a third party to acquire the remaining 54.21% of Omega Telecom, and in August 2006 we, HT India and 3 Global Services entered into a framework agreement with certain institutional investors pursuant to which they agreed, through a newly-formed investment holding company, to take up HT India’s rights under the share purchase agreements and purchase the remaining 54.21% of Omega Telecom. The framework agreement also set out the rights and obligations of the parties with respect to the investment holding company, Omega Telecom and Hutchison Essar.

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Ownership

Prior to our sale of CGP Investments Holdings to Vodafone, we owned, through CGP Investments Holdings and other indirectly wholly-owned subsidiaries, 42.34% of the voting securities of Hutchison Essar. Hutchison Essar in turn holds substantially all of the issued shares in seven mobile telecommunications operating companies. Telecom Investments India Private Limited, or TII, an investment holding company owned by one of our wholly-owned subsidiaries and two other persons, owned 19.54% of Hutchison Essar directly and through its subsidiaries. We held an indirect interest in Hutchison Essar through our 37.25% interest in TII, and we consolidated TII and its two other shareholders in our consolidated accounts. Omega Telecom, an investment holding company owned by one of our wholly-owned subsidiaries and one other person, which in turn was an investment holding company owned by three institutional investors, directly owned 5.11% of Hutchison Essar. We held an indirect interest in Hutchison Essar through our 45.79% interest in Omega Telecom, and we consolidated Omega Telecom and its other shareholder in our consolidated accounts. We also held preference shares in several of the entities holding direct or indirect interests in Hutchison Essar, and options with respect to shares of ND Callus Info Services Private Limited, or ND Callus, Centrino Trading Company Private Limited, or Centrino, and their respective direct holding companies. All of these direct and indirect interests in Hutchison Essar were effectively acquired by Vodafone as the result of its acquisition of CGP Investments Holdings from us on May 8, 2007.

India mobile telecommunications market

The Indian mobile telecommunications industry has experienced high growth in recent years. According to COAI, the total number of GSM mobile telecommunications subscribers in India has increased from approximately 5.3 million as of December 31, 2001 to 105.4 million as of December 31, 2006.

Competition

There is substantial competition in the Indian mobile telecommunications industry based principally on the price and range of value-added services, depth of sales and distribution network, brand awareness, network coverage and service quality. Although Hutchison Essar only offers GSM services in India, it competes with all other GSM and CDMA operators in its service areas. Based on monthly customer numbers published by the AUSPI and monthly market share data published by the COAI, Bharti Televentures Limited, or Bharti Televentures, a GSM operator, was the largest nationwide mobile telecommunications operator in India as of December 31, 2006. Other private competitors include Reliance Infocomm Limited, or Reliance Infocomm, a CDMA and GSM operator, Tata Teleservices Limited, or Tata Teleservices, a national CDMA operator, Idea Cellular Limited, a GSM operator, and the government-controlled GSM operator Bharat Sanchar Nigam Limited, or BSNL, which offers GSM services everywhere in India except Mumbai and Delhi. In Mumbai and Delhi, Mahagana Telephone Nigam Limited, or MTNL, is the government-controlled telecommunications operator.

Spectrum and mobile telecommunications networks

All of Hutchison Essar's mobile telecommunications networks in India operate in either the 900 or 1800 MHz spectrum band using GSM technology. Hutchison Essar operates 16 GSM networks. It has been allocated between 4.8 MHz to 10 MHz of spectrum, depending on the number of customers in the relevant service area. It is entitled to have as much as 15 MHz per service area.

Hutchison Essar has built its own fiber/microwave synchronous digital hierarchy network in India where commercially viable. In most other areas in India, it has either leased or purchased capacity from telecommunications infrastructure providers. In order to reduce capital and network operating costs, some of its cell sites in India are shared with competitors.

Israel

Overview

In Israel, we provide 2G GSM and 3G mobile telecommunications services through Partner. Partner is the second largest mobile telecommunications operator in Israel, with approximately 2.7 million customers as of December 31, 2006. It is the leading provider of 3G services in Israel, covering over 97% of the population. After launching 3G services in December 2004, Partner had more than 276,000 3G customers as of December 31, 2006.

As of March 31, 2007, we held approximately 50.5% of the issued share capital of Partner. Partner's shares are quoted on the Tel Aviv Stock Exchange and its American Depositary Shares are quoted on The Nasdaq National Market, or Nasdaq, and on the London Stock Exchange.

In July 2006, Partner acquired the transmission business of Med-1, including its fiber-optic cable infrastructure comprising a network of approximately 900 kilometers of submerged and terrestrial transmission fiber, for approximately NIS71 million (US\$17.0 million). We believe the acquisition will enable Partner to reduce its transmission costs as well as permit it to provide some of its business customers with bundled services of transmission of data and voice.

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In January, 2007, the Ministry of Communications of Israel granted Partner a license for the provision of domestic fixed-line telecommunications services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years. The license was amended in February 2007 to grant Partner the right to offer voice over broadband, or VOB, services using the infrastructure of Israeli Telecommunications Company Limited, or Bezeq, the incumbent fixed-line operator in Israel, and HOT, a cable television operator in Israel that also offers fixed-line telephone service, to access customers and to provide them with fixed-line telephony service without needing to make payment to the infrastructure owner.

In August 2006, the Ministry of Communications granted Partner a special license for the provision of transmission and data communications services. This special license allows Partner to provide digital transmission services over fixed lines to enable its customers to create a data-link between customer sites and between the site of one customer and that of another.

Partner markets its services under the *Orange* brand.

The following table sets out certain market and operating data for our services as of the dates or for the periods indicated:

Our Services in Israel

	As of or for the year ended December 31,		
	2004	2005	2006
Total customers (in millions) ⁽¹⁾	2.34	2.53	2.67
Growth in total customers (%)	11.3	8.1	5.5
Total turnover (in NIS) ⁽²⁾	5,141	5,123	5,607
Growth in total turnover (%) ⁽²⁾	15.1	0.0	9.4
Blended ARPU (in NIS) ⁽²⁾⁽³⁾	170	156	158
Blended MOU (in minutes) ⁽⁴⁾	286	295	311
Blended Churn (%) ⁽⁵⁾	12.0	13.6	15.6

- (1) Total customers comprise postpaid customers and prepaid customers who have a SIM that has access to the network for any purpose, including voice or data services and that have not been used up or expired at end of the reporting period.
- (2) Partner's results are presented in New Israeli Shekels, or NIS, in its consolidated financial statements which are prepared under US GAAP. We did not consolidate Partner's results until April 2005.
- (3) ARPU is calculated by (i) dividing, for each month in the relevant year, revenue during the month, excluding revenue from equipment sales and including revenue from foreign GSM network operators for calls made by their roaming customers while in Israel using Partner's network, by the average number of Partner customers during that month, and (ii) dividing the sum of all such results by the number of months in the relevant period.
- (4) MOU is calculated by (i) for each month in such period, dividing the total number of minutes of usage during such month by the average number of postpaid/prepaid customers contracted/remaining active for that month and (ii) dividing the sum of such results by the number of months in the relevant period.
- (5) Churn is the total number of customers who disconnect from Partner's network, either involuntarily or voluntarily, in a given period expressed as a percentage of the average of the number of Partner's customers at the beginning and end of such period. The churn rate includes subscribers who have not generated revenue for Partner for a period of the last six consecutive months ending at a reporting date. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to customers switching to a competing mobile telephone network or terminating their use of Partner's services.

Prior to April 20, 2005, we accounted for the results of operations of Partner under the equity method of accounting. Following the completion of a share buyback by Partner on April 20, 2005, our interest in Partner increased above 50%. As a result, we began consolidating Partner's results commencing with the second quarter of 2005. See "Operating and Financial Review and Prospects—Basis of Preparation of Accounts."

Products and services

Partner's 2G services include standard and enhanced voice services, as well as value-added services and products such as roaming, voice mail, voice messaging, color picture messaging, ringtone and game downloads, information services, GPRS, which enables the packet transfer of data in an "always on" mode at a speed of up to 20–30 Kbps, personal numbering and data and fax transmission services.

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Partner's 3G services include video calls, a portal of content services including video-based services under the "obox live" brand, and the transmission of data at speeds of up to 384 Kbps. In March 2006, Partner launched HSDPA to the business sector. HSDPA is a technological enhancement to Partner's 3G services which, through a HSDPA data card modem, enables customers to access 3G services at higher speeds. Partner launched HSDPA with limited coverage in the center of Israel and plans to expand the coverage area gradually.

Ownership

Prior to April 20, 2005, we held approximately 42.9% of the issued share capital of Partner, making us the largest shareholder in Partner. On April 20, 2005, Partner completed a buyback of its shares from Elbit Ltd., or Elbit, Polar Communications Ltd., or Polar, Eurocom Communications Ltd., or Eurocom, and Matav Investments Ltd., or Matav Investments. A total of 33,317,933 shares were purchased at a price of NIS32.2216 per share. As a result of the buyback and subsequent cancellation of the purchased shares, our interest in Partner increased to over 50% of the issued and outstanding share capital of Partner. As of March 31, 2007, we held approximately 50.5% of the issued share capital of Partner.

In April 2005, amendments to Partner's telecommunications license became effective which required that Partner's founding shareholders hold, in the aggregate, at least 26% of its outstanding shares. The amendments also reduced the required minimum holdings of Partner's shares by Israeli citizens and residents from 20% to 5%. Under the terms of a restated relationship agreement that we entered into on April 20, 2005 with Elbit, Polar, Eurocom, Matav Investments, Matav Cable Systems Media Ltd., or Matav Cable, and Tapuz Cellular Systems Ltd., or Tapuz, we have agreed to hold such number of shares of Partner as will be required to comply with the minimum founding shareholder percentage of 26% required under Partner's license, less the 5% required to be held by Israeli citizens and residents, which the Israeli shareholders that are party to the relationship agreement have agreed to hold. In 2006, Partner's founding Israeli shareholders, Elron Electronics Industries Ltd., Elbit and Polar sold all of their shares in Partner, and Eurocom sold approximately 50% of its shares in Partner, to Israeli institutional investors in transactions that satisfied the 5% Israeli citizen and resident shareholder requirement. Together the shares sold constituted approximately 3.3% of Partner's outstanding shares.

Partner's board of directors comprise 11 directors. Under the restated relationship agreement, the Israeli shareholders who are party to the agreement are entitled to appoint 10% of the directors on Partner's board of directors, which, based on the current number of directors, entitles the Israeli shareholders to appoint one director. In addition, to the extent required by applicable law or Partner's license, we are obligated to vote our shares in each general meeting of Partner at which directors are elected to ensure that a majority of the directors of Partner are Israeli citizens or residents. Except for these requirements, there are no obligations to vote for any directors. If a party to the relationship agreement commits certain events of default described in the agreement, it may be required to offer its shares to the other parties on a pre-emptive basis. Events of default for this purpose include a breach of the relationship agreement which has a material adverse effect on Partner, and in the case of such breach, the purchase price at which the shares are to be sold will be market value less a 17.5% discount.

Mobile telecommunications industry in Israel

Mobile telecommunications services were first introduced in Israel in 1986. Initially, there was a single mobile telecommunications operator, Pelephone Communications Limited, or Pelephone (a wholly-owned subsidiary of Bezeq, the incumbent fixed-line operator in Israel), offering an analog service. It was not until the launch of the second mobile telecommunications operator, Cellcom Israel Limited, or Cellcom, at the end of 1994, that growth in mobile telecommunications usage in Israel increased significantly.

As of December 31, 2006, Israel had a mobile phone penetration rate of over 100%. Market data from industry sources indicates that the total market size was approximately 8.4 million subscribers as of December 31, 2006, representing approximately 118% of Israel's population.

Competition

There are currently four mobile telecommunications operators in Israel: Partner, Pelephone, Cellcom and MIRS Communications Limited, or MIRS. Partner is the second largest mobile telecommunications operator in Israel. Israel's high mobile telecommunications penetration rate has resulted in intense competition for market share among mobile telecommunications operators. Partner competes with Cellcom, Pelephone and MIRS principally on the basis of telecommunications service quality, brand identity, variety of handsets, tariffs, value-added services and the quality of customer services.

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Partner, Cellcom and Pelephone have each been awarded a 3G license. Cellcom commercially launched its 3G service and handsets in July 2006. Pelephone currently operates nationwide mobile telephone networks in Israel using both N-AMPS analog and CDMA and CDMA1 xRTT technology, as well as EV-DO technology. Pelephone has announced its intention to roll out a GSM network and offer UMTS/HSDPA technology.

Palestine Telecommunication Co. Ltd., or Paltel, operates a GSM mobile telecommunications network under the name *Jawwal* in the areas of the West Bank and Gaza Strip administered by the Palestinian Authority, as well as a land-line network. Paltel's GSM network competes with Partner's network in some border coverage overlap areas.

Entry of MVNOs

In March 2007, the Ministry of Communications of Israel engaged NERA, an international consulting firm, to review the level of competition in the Israel mobile market and review whether to allow the entry of MVNOs, which are providers of mobile telecommunications services that do not own their own allocation of spectrum, into the Israeli telecommunications market. Based on the findings of NERA's review, the Ministry of Communications may opt to grant licenses to MVNOs, who may use Partner's infrastructure or other cellular operators to offer mobile telecommunications services in Israel.

Number portability

In March 2005, the Telecommunications Law was amended to require the Minister of Communications to implement a mobile number portability plan and, separately, a fixed number portability plan by September 2006. The number portability plan would permit customers in Israel to change their service provider to another network operator while retaining the same telephone number. Once implemented, we anticipate that number portability will provide network operators with the opportunity to transfer other operators' customers to their network, which will likely increase churn rates and may increase customer acquisition and retention costs.

Despite efforts to introduce the requisite technology and to coordinate the transition to number portability by September 2006, at present none of the cellular or fixed-line operators in Israel has implemented number portability. Partner, Cellcom and Pelephone have filed a petition with the Israeli High Court of Justice requesting that the court order the Government of Israel and the Ministry of Communications to show cause for failing to amend the Telecommunications Law in order to postpone the number portability implementation deadline. The justifications for the petition includes Partner's inability to comply with the implementation timeline due to the unique technological environment of the Israeli cellular market, the complex requirements of the Israeli regulator and the absence of a detailed plan as was originally contemplated by the law.

In May 2007 the Ministry of Communications of Israel announced that the latest implementation date for number portability would be December 1, 2007. The Ministry of Communications has, despite announcing the later date, stated that it is nonetheless considering imposing monetary sanctions on relevant telecommunication license holders, including Partner, in accordance with the Telecommunications Law for allegedly violating their obligations to implement number portability by September 2006. Partner has until June 24, 2007 to submit its position to the Ministry of Communications.

Spectrum and mobile telecommunications networks

As of December 31, 2006, Partner's 2G and 3G networks covered approximately 99% and 97%, respectively, of the Israeli population.

Spectrum availability is limited in Israel and is allocated by the Ministry of Communications of Israel through a licensing process. Pursuant to the terms of its license and subsequent allocations, Partner was allocated 2 x 10.4 MHz in the 900 MHz frequency band, of which 2 x 2.4 MHz is shared with Paltel, which operates in the West Bank and the Gaza Strip. Partner also has an agreement to use an additional 2 x 2.4 MHz of spectrum in the 900 MHz frequency band on a shared basis with Paltel. Under this agreement, which has been endorsed by the Ministry of Communications, Partner is permitted to use this additional spectrum in Israel so long as it does not cause interference in areas where Paltel operates.

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In December 2001, the Ministry of Communications awarded Partner two bands of spectrum: one band comprising 10 MHz of paired GSM 1800 spectrum and one band comprising 10 MHz of paired and of 5 MHz unpaired UMTS third-generation spectrum. During 2002, Partner started deploying GSM 1800 MHz band base transceiver stations to enhance the capacity of its GSM 900 network, and to further improve the quality of its GSM 900 network. In 2004, Partner launched 3G services. In March 2006, Partner launched HSDPA with limited coverage to the business sector, enhancing its 3G services.

Thailand

Overview

In Thailand, we market mobile telecommunications services using CDMA2000 1X technology under the “*Hutch*” brand. We began operations in Thailand in February 2003. As of December 31, 2006, the *Hutch* brand service had approximately 728,000 customers.

Our business operations in Thailand are conducted mainly through two entities, Hutchison CAT Wireless MultiMedia Limited, or Hutchison CAT, and BFKT (Thailand) Limited, or BFKT, which both exercise contractual rights that have been negotiated with CAT Telecom Public Company Limited (the successor to the telecommunications business operations of the former Communications Authority of Thailand), or CAT Telecom. CAT Telecom has the right to operate a CDMA2000 1X network. Hutchison CAT is a corporation with two principal shareholders, Hutchison Wireless MultiMedia Holdings Limited, or Hutchison Wireless, and CAT Telecom.

Hutchison CAT has a contract with CAT Telecom to provide exclusive marketing services for CAT Telecom in central Thailand, an area that covers 25 of Thailand’s 76 provinces, including the capital city of Bangkok, and has a population of approximately 20 million people, representing approximately 33% of Thailand’s population. The provinces within our marketing area account for approximately 71% of Thailand’s GDP. CAT Telecom is the only mobile telecommunications operator in Thailand utilizing CDMA2000 1X technology.

In 2006, CAT Telecom commenced pre-commercial trial service for its service using CDMA2000 1X EV-DO technology under the “*CAT CDMA*” brand in the 51 provinces in Thailand that are not within Hutchison CAT’s marketing area. CAT Telecom has announced that it plans to be able to provide full commercial launch of its *CAT CDMA* brand service in the third or fourth quarter of 2007. In April 2007, Hutchison CAT and CAT Telecom commenced nationwide CDMA roaming service between CAT Telecom’s CDMA network in the 51 provinces and the CDMA network in the 25 provinces covered by Hutchison CAT. We expect that seamless roaming between the two CDMA networks will enhance the efficiency of CDMA communication in Thailand, enabling CDMA customers to communicate conveniently and efficiently throughout the country. With this arrangement, we expect the *Hutch* brand service to gain additional customers from customers who previously might have been unwilling to subscribe to the *Hutch* brand CDMA2000 1X services due to its limited network coverage. We believe that Hutchison CAT will also benefit from additional usage from subscribers who travel outside Hutchison CAT’s 25 provinces. Hutchison CAT and CAT Telecom plan to extend the roaming service arrangement to other CDMA services such as data roaming in 2007 to be able to offer a full nationwide data network footprint.

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Under Hutchison CAT's marketing contract with CAT Telecom, Hutchison CAT is responsible for marketing and selling mobile phones and mobile telecommunications services to the public on behalf of CAT Telecom, as well as providing after-sale services and other supplementary services relating to such sales and marketing activities. The current contract is effective through 2015. Under the contract, Hutchison CAT receives a percentage of the monthly service fees and service transfer fees paid by the *Hutch* customers.

Hutchison CAT's provision of marketing services to CAT Telecom, and BFKT's leasing of telecommunications equipment to CAT Telecom, are both activities that are distinct from those carried out by the network operator, CAT Telecom, which is the sole party with the right to operate the CDMA2000 1X network. See "—Regulation—Thailand."

The following table sets out certain market and operating data for the *Hutch* brand CDMA2000 1X services as of the dates or for the periods indicated:

Hutch brand Services in Thailand

	As of or for the year ended December 31,		
	2004	2005	2006
Total customers (in millions) ⁽¹⁾	0.62	0.73	0.73
Growth in total customers (%)	174.6	19.0	0.0
Total turnover (in HK\$ millions)	1,219	1,045	1,017
Growth in total turnover (%) ⁽²⁾	243.4	(14.3)	(2.7)
Blended ARPU (in THB) ⁽³⁾	1,001	669	577
Blended MOU (in minutes) ⁽³⁾	406	385	709
Blended Churn (%) ⁽⁴⁾	7.8	7.1	6.5

- (1) Total customers comprise postpaid customers and prepaid customers who have a SIM that has access to the network for any purpose, including voice or data services and that have not been used up or expired at end of reporting period.
- (2) Blended ARPU is calculated as the total service revenues during the period, divided by the weighted average number of activated customers in that period, on a twelve month weighted basis.
- (3) Blended MOU is calculated by the total minutes carried over the network (including both inbound and outbound roaming during the period) divided by the weighted average number of activated customers for the period, on a twelve month weighted basis.
- (4) Blended churn represents the average of the churn rates for each month in the period, which are calculated by dividing the number of disconnections (net of reconnection and internal migration between networks) for the relevant period by the average number of customers at the beginning of such period.

Since commencing operations in Thailand in February 2003, we have experienced start-up operational and control difficulties in growing our business. In 2005, we launched a number of cost saving initiatives, including streamlining the organization and outsourcing of network maintenance and IT operations, and built upon these initiatives during 2006. This resulted in improved financial results for the year, as our Thailand operation recorded its first year of earnings before interest, taxes, depreciation and amortization.

Products and services

In addition to traditional voice and text messaging services, we provide services and applications that are designed to take full advantage of the CDMA2000 1X network. We offer a wide variety of value added multimedia services including ringtones, ringback tones, audiotext, wallpapers, animation, video clip downloads, games, news, and horoscopes. Moreover, we are the only provider in Thailand of full consumer A-GPS services allowing subscribers to locate target devices as well as to find location-sensitive information under our Navi content service.

We have completed technical trials for CDMA 1X EV-DO technology. EV-DO, or evolution-data optimized, is a wireless radio broadband data standard adopted by many CDMA mobile phone service providers that permits faster data transfer rates compared to 2G. We believe that with CDMA 1X EV-DO we will offer the fastest mobile broadband Internet technology in Thailand. We are now in the process of upgrading our network in selected strategic areas in Bangkok and the east coast region of Thailand.

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Ownership

Hutchison CAT

Through our 49% interest in Hutchison Wireless, which holds 73.9% of the voting equity in Hutchison CAT, we have a 36.2% economic interest in Hutchison CAT. GMRP (Thailand) Limited, or GMRP, a company owned by a Thai entrepreneur, beneficially holds 43.5% of the equity interests in Hutchison Wireless, and three other Thai shareholders together beneficially hold the remaining 7.5%. We hold our equity interests in Hutchison Wireless in the form of Class A shares, entitling us to one vote per share, while GMRP holds its equity interests in Hutchison Wireless principally in the form of Class B shares, which entitle it to one vote per 20 shares. This gives us voting control over Hutchison CAT on matters that do not require special shareholder resolutions under the shareholders' agreement or the articles of association of Hutchison CAT, because we own approximately 80% of the voting equity of Hutchison Wireless, which holds 73.92% of the voting equity interests in Hutchison CAT.

In addition, we exercise governing power over the business operations of Hutchison CAT through our shareholders' agreements with the Thai shareholders of Hutchison Wireless. For example, we are entitled to nominate four of the five directors of Hutchison Wireless, and Hutchison Wireless is entitled to nominate six of the nine directors of Hutchison CAT, including the chairman of the board and the managing director. The shareholders' agreement also confers upon us a right of first refusal with respect to shares held by the group of Thai shareholders beneficially holding 7.5% of the equity interests in Hutchison Wireless. We also have the right to purchase, or cause to be purchased, their shares in Hutchison Wireless upon certain events of default by those Thai shareholders, subject to applicable foreign ownership restrictions.

Furthermore, under the shareholders' agreement with respect to Hutchison Wireless, we have a call option which, if exercised, would allow us to purchase, or nominate a third party to purchase, all or a portion of the equity ownership held by GMRP in Hutchison Wireless, subject to applicable foreign ownership restrictions. Conversely, GMRP has a put option which, if exercised, would allow it to require us to purchase all or a portion of its equity interest in Hutchison Wireless, subject to the same foreign ownership restrictions. The option exercise price would be the historical cost of acquisition by GMRP of its shares in Hutchison Wireless.

CAT Telecom holds 26% of the voting equity in Hutchison CAT. The shareholders' agreement with respect to Hutchison CAT contains restrictions on share transfers by the shareholders. Among other provisions, Hutchison Wireless and CAT Telecom each have a right of first refusal in the event that the other party wishes to transfer its shares in Hutchison CAT to a third party. Transfers of shares in Hutchison CAT by Hutchison Wireless, other than pursuant to the right of first refusal or to certain subsidiaries and affiliates, are subject to the prior written consent of CAT Telecom.

Pursuant to the terms of the shareholders' agreements with respect to Hutchison CAT and Hutchison Wireless, CAT Telecom has an option to swap CAT Telecom's shares in Hutchison CAT with shares of Hutchison Wireless or BFKT. If the option is exercised, then our investment in BFKT or Hutchison Wireless will be diluted, but there will be a corresponding increase in our investment in Hutchison CAT. CAT Telecom may exercise the swap option at any time. The shareholders' agreement provides that the swap will be for shares of equivalent value, but does not specify other details, which would be determined by the parties if and when the option is exercised. To date, CAT Telecom has not exercised this option.

Under the shareholders' agreement with respect to Hutchison CAT, Hutchison Wireless is responsible for securing financing to meet the operational requirements of Hutchison CAT. Previously, such financing was generally obtained in the form of third-party loans that were guaranteed by Hutchison Whampoa or us. See "Operating and Financial Review and Prospects—Liquidity and Capital Resources" for a further discussion of these guarantees. We are required under another shareholders' agreement to provide funding for all operating expenses and capital expenditures of Hutchison Wireless, directly through shareholder loans, guarantees and subscription to capital calls, and indirectly by providing financing to the Thai shareholders in order to enable them to meet their funding obligations and maintain their current share ownership level.

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BFKT

Our other significant interest in Thailand is BFKT, a telecommunications network leasing company in which we hold a 49% economic interest and generally have voting control. Our interest in BFKT is held through our 49% interest in PKNS (Thailand) Limited, or PKNS, a holding company that owns almost 100% of the voting equity interests in BFKT. The other 51% interest in PKNS is held by DPBB (Thailand) Limited, or DPBB. We hold our equity interests in PKNS in the form of Class A shares, entitling us to one vote per share, while DPBB holds its equity interests in the form of Class B shares, entitling it to one vote per 20 shares. As a result, we have voting control of BFKT, since we own approximately 95% of the voting equity of PKNS, which holds almost 100% of the voting equity interests in BFKT. Through our voting control and agreements with DPBB, we exercise significant influence over the business operations of BFKT.

Under the shareholders' agreement with respect to BFKT, we have a call/put option arrangement with DPBB that is substantially similar to the call/put option arrangement we have in place with GMRP with respect to Hutchison CAT.

Consolidation into financial accounts

In accordance with the foreign ownership restrictions set forth in applicable Thai laws and regulations, Thai shareholders own a majority of the equity interests in Hutchison CAT and BFKT. Notwithstanding the fact that we do not directly hold a majority of the equity ownership interests in Hutchison CAT or BFKT, we are nonetheless able to consolidate these businesses into our consolidated accounts included in this annual report. They are consolidated as our subsidiaries under HKFRS, the accounting principles under which our consolidated accounts are prepared, because we have governing power over the business operations by virtue of our voting control and agreement with the Thai shareholders. We can exercise approximately 80% of the voting rights of Hutchison Wireless, which holds 73.9% of the equity shares in Hutchison CAT, and approximately 95% of the voting rights in PKNS, which can exercise almost 100% of the voting rights in BFKT, as detailed above. For accounting consolidation purposes, the losses applicable to the minority interests in our Thailand businesses, to the extent that they exceed the minority interests' share of the Thai entities' common equity, are charged against our profit and loss account. For further information, see note 2(e) to our consolidated accounts. These Thailand businesses are also consolidated under US GAAP for the same reasons as they are consolidated under HKFRS.

Mobile telecommunications industry in Thailand

The Thai mobile telecommunications market saw a 32% increase in customers from 2005 to 2006. The penetration rate for mobile telecommunications services in Thailand was approximately 64% as of December 31, 2006, based on the number of activated subscriptions.

In Thailand, a significant majority of mobile telecommunications customers are prepaid customers. We began marketing prepaid subscriptions in Thailand in late March 2004. Prior to March 2004, we marketed only postpaid subscriptions. As of December 31, 2006, the *Hutch* brand service had approximately 311,000 postpaid customers and approximately 417,000 prepaid customers.

Competition

The *Hutch* brand service is a relatively new entrant to the Thai mobile telecommunications market and was the second smallest mobile telecommunications service in Thailand as of December 31, 2006. As the newest entrant in the Thai mobile telecommunications industry, the *Hutch* brand service faces significant competition from more established brands with an existing large customer base. The *Hutch* brand service competes with three other major mobile telecommunications operators: Advanced Info Services, Total Access Communications and True Move Company Limited (formerly known as TA Orange Company Limited), all of which had significantly larger market share.

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Mobile telecommunications network equipment leasing

BFKT has a contract to lease mobile telecommunications equipment and accessories comprised of switching subsystems, base stations subsystems, networking subsystems, ancillary equipment for switching systems and network systems, test devices and radio system analysis equipment to CAT Telecom. We also provide all of the technical personnel who maintain and manage such equipment and facilities. Under the contract, CAT Telecom engages us to install, repair, maintain and manage the equipment and accessories that we lease to CAT Telecom. We own the equipment that we lease to CAT Telecom pursuant to approvals granted by the Post and Telegraph Department, but not the land on which the sites are located. The current lease is effective through 2015.

Indonesia

Overview

We provide mobile telecommunications services in Indonesia through PT Hutchison CP Telecommunications (formerly known as PT Cyber Access Communications), or PT Hutchison CP. PT Hutchison CP holds a combined 2G and 3G mobile telecommunications license in Indonesia. We launched services in March 2007 under the “3” brand and provide services on a GSM 1800 network with UMTS infrastructure overlaid on the GSM network in key cities, including Jakarta, Bandung and Surabaya.

Products and services

We provide prepaid 2G and 3G services and intend to launch postpaid services in June 2007.

In addition to basic voice and text messaging services, we provide 3G access, video calls, MMS and other data-based services through GPRS at speeds up to 64 kbps and through 3G at speeds up to 384 kbps. We also provide value added services such as streaming and ring back tones. PT Hutchison CP is putting a strong emphasis on content provision such as music, games, horoscopes, news, and sports news with more than one hundred content providers currently contracted.

Ownership

We hold a 60% equity interest in PT Hutchison CP, which we purchased from affiliates of the Charoen Pokphand Group Indonesia, who continue to hold the remaining 40% equity interest of PT Hutchison CP. Applicable regulations in Indonesia are currently silent on the maximum foreign share ownership in cellular mobile networks. In accordance with the requirements of applicable Indonesian investment laws, the current shareholdings in PT Hutchison CP have been approved by the Indonesian Capital Investment Coordinating Board, or BKPM.

Mobile telecommunications industry in Indonesia

Indonesia has a population of more than 220 million people and a relatively low mobile penetration rate of approximately 26% and a fixed-line penetration rate of only 4%. In 2006, the number of mobile customers in Indonesia grew by approximately 25%.

Competition

We are the newest entrant in the Indonesian mobile telecommunications market. We compete with the following mobile telecommunications operators: PT Telekomunikasi Selular, or PT Telekom, which provides services under the “Telkomsel” brand, and is 65% owned by PT Telekomunikasi Indonesia Tbk, the incumbent fixed-line operator in Indonesia, and 35% owned by Singapore Telecom Mobile Pte Ltd, a subsidiary of Singapore’s dominant telecommunications operator; PT Indonesian Satellite Corp, or PT Indosat, which is the second largest telecommunications operator in Indonesia and the primary provider of international telecommunications services in Indonesia, and is 42% owned by a subsidiary of Singapore Technologies Telemedia Pte Ltd; PT Excelcomindo Pratama, or PT Excelcomindo, which provides services under the “XL” brand, and is majority controlled by Telekom Malaysia Berhad, or Telekom Malaysia, the largest telecommunications operator in Malaysia; and PT Mobile-8 Telecom Tbk, or PT Mobile 8. PT Telekom, PT Indosat and PT Excelcomindo hold most of the market share in the Indonesia mobile telecommunications market, and PT Telekom is the market leader in terms of number of customers. With the exception of PT Mobile 8, all of these companies hold both 2G and 3G licenses. In addition to these mobile telecommunications operators, we also compete with five wireless local loop, or WLL, operators, which were originally awarded licenses to provide limited mobility telecommunications services, but are now able to provide full mobility telecommunications services.

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Spectrum and mobile telecommunications networks

PT Hutchison CP was awarded the first nationwide mobile telecommunications licence to operate mobile telephone services based on a combined 2G and 3G wireless network spectrum through the first open and competitive licensing process in Indonesia. It was at that time one of only two mobile telecommunications operators in Indonesia awarded such a combined licence. PT Hutchison CP has been allocated 2 x 10 MHz of spectrum in the 1800 MHz frequency band and an initial 2 x 5 MHz of spectrum in the 2.1 GHz frequency band. Further, an additional 2 x 5 MHz of spectrum in the 2.1 GHz frequency band has been reserved for PT Hutchison CP for allocation after January 1, 2008, provided that PT Hutchison CP has paid all fees due and satisfied its construction commitments in line with its deployment plan approved by the government of Indonesia.

PT Hutchison CP has been building out its nationwide wireless network. PT Hutchison CP has engaged Siemens for the majority of the network deployment and has also contracted with Nokia and Alcatel to deploy part of the network.

Vietnam

Overview

We provide mobile telecommunications services in Vietnam through a business cooperation contract, or BCC, with Hanoi Telecommunications Joint Stock Company, or Hanoi Telecommunications. We launched services in January 2007 under the “*HT Mobile*” brand and provide nationwide services on a CDMA2000 1XEV-DO network.

Products and services

We have provided prepaid and postpaid services in Vietnam since commercially launching our services in January 2007.

Evolution-data optimized, or EV-DO, is a wireless radio broadband data standard adopted by many CDMA mobile phone service providers that permits faster data transfer rates compared to 2G. Using CDMA 2000 1XEV-DO, we offer customers a wide variety of telecommunications services, ranging from basic voice and data services to multimedia services using advanced mobile technology such as voice SMS, color ring tones and game downloads. We also provide a wide range of content covering sports, news, entertainment and finance. HT Mobile was the first mobile telecommunications operator in Vietnam to offer voice SMS.

BCC structure

In February 2005, we received an investment license from the Ministry of Planning and Investment of Vietnam effective February 4, 2005, approving the BCC between Hutchison Telecommunications (Vietnam) S.a r.l, or Hutchison Vietnam, our indirect wholly owned subsidiary, and Hanoi Telecommunications. The investment license has a term of 15 years.

Under the terms of our BCC with Hanoi Telecommunications, we are to jointly build, develop and operate a CDMA-based mobile telecommunications network in Vietnam and provide services over such network for a term of 15 years. Hutchison Vietnam will contribute capital and management resources towards the deployment and operation of the network. The network itself will be deployed and operated pursuant to an establishment and operation of the public ground mobile telecommunications network license and frequency allocation in the 800 Mhz frequency band secured by Hanoi Telecommunications.

Under the BCC, we and Hanoi Telecommunications will share on an equal basis the free cash flow determined as cumulative profits before tax after the repayment of the funding paid by Hutchison Vietnam for the development of the network and the business (determined according to a pre-agreed formulation).

At the time we entered the BCC with Hanoi Telecommunications, Vietnamese law did not permit foreign ownership in an entity that is the facility base operator. Therefore, foreign investors in this sector could only invest through a BCC. The BCC is a form of investment in which Vietnamese and foreign partners agree to carry on an investment and business activity without creating a new entity. The parties agree to share profits and losses, in much the same way as a partnership. One or both parties may contribute fixed or working capital, but the division of profit will be what is agreed upon by the parties rather than being in the proportion of the capital contributions. The parties to a BCC may also establish a supervisory committee to manage the relationship between the parties, which we have done with Hanoi Telecommunications. In the case of a BCC involved in the construction of public telecommunications networks and provision of telecommunications service, the Vietnamese party must be an entity permitted to engage in the relevant business activities. The Vietnamese party usually contributes access to the networks and some working capital while the foreign partner contributes money for new fixed capital that then becomes the property of the Vietnamese partner at the end of the project. Management control of the network remains with the Vietnamese party.

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Following the Investment Law and Corporate Law coming into effect in 2007 and Vietnam's commitment to provide more access to foreign companies following its admission to the World Trade Organization, Vietnamese law now permits a telecommunications facility base operation license to be held by a joint venture or joint stock company that is owned up to 49% by a foreign shareholder in accordance with a time schedule provided by the Vietnamese government. Existing BCCs may also convert into a limited liability joint venture or joint stock company. We and Hanoi Telecommunications are currently considering whether to convert our BCC into a suitable corporate structure.

Mobile telecommunications industry in Vietnam

Vietnam has a population of more than 83 million and a relatively low mobile telecommunications market penetration rate of approximately 28%.

There are six licensed nationwide mobile facility base operations in Vietnam, comprised of three GSM networks using 900-MHz and 1800-MHz spectrum, two CDMA networks using 800-MHz spectrum, including HT Mobile, and one CDMA network using 450 MHz spectrum. Customers of CDMA operators represent approximately 8% of the total mobile telecommunications customers in Vietnam.

Competition

We compete with GSM-based as well as CDMA-based mobile telecommunication operators. The three GSM operators in Vietnam are: Vietnam Mobile Telecom Services Company, which markets its services under the "MobiFone" brand; Vietnam Telecom Services Company, which markets its services under the "Vinaphone" brand; and Viettel Corporation, which markets its services under the "Vietel Mobile" brand. Our CDMA competitors are EVN Telecom and CDMA Mobile Phone Center, which is known as S Telecom and markets its services under the "S Fone" brand. The three GSM operators and EVN Telecom are all state owned enterprises while S Telecom is a BCC between Saigon Postel Corporation and SLD Telecom, a joint venture company between three Korean companies: SK Telecom, LG Electronics and Dong-A Telecomm.

Spectrum and mobile telecommunications networks

Hanoi Telecommunications, an enterprise majority owned by state enterprises, with which Hutchison Vietnam has entered into a BCC, is the holder of a license for the establishment of a CDMA-based ground mobile telecommunications network and the provision of mobile telephone services, supplementary services and value added services throughout Vietnam. The license has a term of 15 years. A frequency allocation in the 800 Mhz frequency band has been secured by Hanoi Telecommunications. We have been building out a nationwide wireless network, and have engaged Nortel for the network deployment.

Sri Lanka

Overview

In August 1997, we acquired a 100% interest in Hutchison Telecommunications Lanka (Private) Limited (formerly called Lanka Cellular Services (Pvt.) Ltd.), or Hutchison Lanka, which holds one of the four nationwide mobile telecommunications licenses in Sri Lanka. We began providing mobile telecommunications services in December 1998 by setting up analog base stations around Colombo. We subsequently launched GSM services in 2000 throughout the interior and southwest regions of the country. In May 2004, Hutchison Lanka launched the "Hutch" brand and commenced operating on a 100% pre-paid basis. The analog network around Colombo was shut down in July 2004.

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Presently, we operate a nationwide GSM network with a customer base of approximately 559,000 customers as of December 31, 2006. We experienced customer growth of 133% during 2006, and the strong growth has continued during 2007, as the number of customers increased to 685,000 as of March 31, 2007. Hutchison Lanka follows a two-pronged approach of offering low entry costs and lower call charges.

Our Mobile Services in Sri Lanka

	As of or for the years ended December 31,		
	2004	2005	2006
Total customers (in thousands) ⁽¹⁾	127	239	559
Growth in total customers (%) ⁽¹⁾	111.0	88.1	133.4
Total turnover (in HK\$ millions)	62	93	124
Growth in total turnover (%) ⁽²⁾	24.0	50.0	33.3
Prepaid ARPU (in LKR) ⁽³⁾	873	575	378
Prepaid MOU (in minutes) ⁽⁴⁾	189	154	123
Prepaid churn (%) ⁽⁴⁾	2.5	2.9	2.2

- (1) Total customers comprise prepaid mobile telecommunications customers who have a SIM that has access to the network for any purpose, including voice or data services and that have not been used up or expired at end of reporting period.
- (2) Prepaid ARPU is calculated as the total service revenues during the period, divided by the weighted average number of activated customers in that period, on a twelve month weighted basis.
- (3) Prepaid MOU is calculated by the total minutes carried over the network (including both inbound and outbound roaming during the period) divided by the weighted average number of activated customers for the period, on a twelve month weighted basis.
- (4) Prepaid churn represents the average of the churn rates for each month in the period, which are calculated by dividing the number of disconnections (net of reconnection and internal migration between networks) for the relevant period by the average number of customers at the beginning of such period.

Products and services

Hutchison Lanka currently offers three affordable tariff packages with incoming rates to suit customer needs. In addition to traditional voice and data services, Hutchison Lanka also offers value added services such as reload, IDD, ringback tones, international SMS, cricket alerts, call conference, call forwarding/waiting, and ring tone and picture downloads.

Sales and distribution

The Hutchison Lanka distribution structure operates through two channels: promotions channel and distributions channel. Promotions are conducted at 25 to 30 locations each month, to ensure there are at least five ongoing promotions on a given day. Distribution is done through two channels: SIM distribution and reload /top-up distribution. Three main business partners carry out distribution of SIMs, while over 80% of distribution takes place through reload outlets which function as retail points. We have approximately 11,000 reload outlets island-wide.

Mobile telecommunications industry in Sri Lanka

Sri Lanka has a population of approximately 21 million, with a mobile penetration rate of approximately 27%. There is strong competition among the four mobile telecommunications operators on tariffs, coverage, and value added services.

In recent years, the government of Sri Lanka has encouraged foreign investment in the telecommunications sector with a goal of expanding tele-density in the country. Foreign investors are permitted to hold 100% of a mobile telecommunications operator. At present, all mobile telecommunications operators in Sri Lanka are either fully-owned or partly-owned by foreign investors. Dialog Telekom Limited, or Dialog Telekom, is wholly-owned by Malaysia Telekom, Tigo (Private) Limited (previously named Celltel Lanka (Pvt) Ltd), or Tigo, is wholly-owned by Millicom International Cellular S.A., and Mobitel (Pvt) Ltd, or Mobitel, is owned by Sri Lanka Telecom Limited, which in turn is partly state-owned and partly owned by NTT Communications Corporation. A fifth operator that is expected to commence operations in 2007 is owned by Bharti Airtel Limited, or Bharti Airtel.

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Competition

There are four mobile telecommunications operators currently operating in Sri Lanka, namely Dialog Telekom, Tigo, Mobitel and Hutchison Lanka. Dialog Telekom is the leading operator with over 3.4 million subscribers, followed by Tigo and Mobitel with over 900,000 subscribers each. A fifth operator, Bharti Airtel, has also been granted a license and is scheduled to commence operations towards the end of 2007.

Among the four current operators, Hutchison Lanka was the last entrant to the market, but has made significant progress in acquiring customers during its three years in the market. We compete with other mobile operators primarily on affordability, catering to customers by offering a choice of three pre-paid tariff packages.

Spectrum and mobile telecommunications networks

Hutchison Lanka initially operated in the 900 MHz band. In 2005 it acquired spectrum in the 1800MHz band and now operates GSM services in the 900 MHz and 1800 MHz bands. We currently have over 300 base stations in operation in all parts of Sri Lanka and are carrying out a rapid network expansion program aimed at covering the entire island by the end of 2008.

Ghana

In 1998, we acquired our interest in Kasapa Telecom Limited (formerly known as Celltel Limited), or Kasapa. In January 2005, our equity and voting interest in Kasapa increased from 80% to 100%.

Kasapa received a 15-year replacement license effective December 2, 2004 authorizing the provision of mobile cellular service on its present 800 MHz spectrum. Kasapa commenced offering CDMA service under this new license in September 2005 and shortly afterwards shut down the AMPS analog network that it had previously been using.

We operate a prepaid system and began offering voucher cards for sale in March 2003. In addition to these traditional voucher cards, we introduced electronic prepaid vouchers (printed for each customer) at point-of-sale terminals during 2004. The new lower denominations and their wider availability have improved affordability and provided greater customer convenience. We also introduced our lowest denomination voucher cards in December 2005.

	As of or for the years ended December 31,		
	2004	2005	2006
Total customers (in thousands) ⁽¹⁾	40	57	200
Growth in total customers (%)	2.6	42.1	250.6
Total turnover (in HK\$ millions)	56	54	130
Growth in total turnover (%)	86.7	(3.6)	140.7
Prepaid ARPU (in GHC '000) ⁽³⁾	100	102	96
Prepaid MOU (in minutes) ⁽⁴⁾	75	90	124
Prepaid churn (%)	2.9	5.0	2.0

- (1) Total customers comprise prepaid mobile telecommunications customers who have a SIM that has access to the network for any purpose, including voice or data services and that have not been used up or expired at end of reporting period.
- (2) Prepaid ARPU is calculated as the total service revenues during the period, divided by the weighted average number of activated customers in that period, on a twelve month weighted basis.
- (3) Prepaid MOU is calculated by the total minutes carried over the network (including both inbound and outbound roaming during the period) divided by the weighted average number of activated customers for the period, on a twelve month weighted basis.
- (4) Prepaid churn represents the average of the churn rates for each month in the period, which are calculated by dividing the number of disconnections (net of reconnection and internal migration between networks) for the relevant period by the average number of customers at the beginning of such period.

We have been engaged in a legal dispute with Kludjeson International Limited, or KIL, a former 20% shareholder of Kasapa. KIL initiated proceedings in Ghana against Kasapa and several individuals including members of the management team. KIL alleged that the managing director of Kasapa had not been properly appointed and therefore challenged actions taken by the management of Kasapa, including the calling of board meetings, movement of equipment and documents, relocation of the registered and business premise of Kasapa, and the making of payments. Kasapa successfully defended the action and in April 2005 a judgment was entered in favor of Kasapa and the other defendants. However, in a separate action brought by KIL before a different judge, the court on April 25, 2007 ruled among other things that (i) Kasapa's present managing director, chief financial officer and company secretary had not been properly appointed to their current positions, and a director and alternate director had not been properly appointed to the board of directors of Kasapa, and were restrained from holding themselves out as such, and (ii) the change of the name from Celltel Limited to Kasapa was void. We have appealed against the April 25, 2007 decision on various grounds including the fact that it deals with matters which had already been adjudicated in favor of Kasapa in the April 2005 judgment. Pending the appeal, the execution of the April 25, 2007 decision has been stayed.

Non-telecommunications businesses

Disposal of Vanda IT Solutions

Our non-telecommunications business was comprised primarily of the IT solutions business of Vanda IT Solutions and its subsidiaries. The business included sales of computer systems, provision of related systems integration services, software development and e-business services. In July 2006, we sold our 100% interest in Vanda IT Solutions and its subsidiaries, and all loans extended by us to Vanda IT Solutions and its subsidiaries up through June 30, 2006, to a wholly-owned subsidiary of Hutchison Whampoa, our major shareholder, for a total cash consideration of HK\$105 million (US\$13.5 million), subject to adjustments. The purchase price was determined after arms-length negotiations. We continue to provide guarantees in respect of the performance of subsidiaries of Vanda IT under several third-party financing agreements. We have been counter-indemnified in full for these guarantees by members of the Hutchison Whampoa group.

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Intellectual property

We have entered into a framework intellectual property rights licensing agreement with Hutchison International pursuant to which Hutchison International shall procure that certain domain names, trademarks and other intellectual property rights owned by or licensed to the Hutchison Whampoa group in relation to the telecommunications services and operations of the relevant members of our group are licensed to, and will continue to be licensed to, our group. In particular, we have arrangements with the Hutchison Whampoa group pursuant to which we have rights to use “3”, “Hutch” and “Hutchison Telecom” and other trademarks that include the word “Hutchison” or derivations of “Hutchison.” The intellectual property rights are, and will continue to be, licensed to members of our group on a royalty-free basis until the relevant change of control provisions as may be agreed between the relevant members of our group and the Hutchison Whampoa group are triggered. The relevant members of our group will bear the appropriate proportion of the total external and internal costs and expenses incurred in connection with brand management and support.

Following our sale of CGP Investments Holdings to Vodafone, Hutchison Essar and its subsidiaries may continue to use the *Hutch* brand name for up to three years following completion of the sale.

Partner has a license from Orange International Developments Limited, a subsidiary of Orange SA, to use the *Orange* brand. Under the brand license agreement, which became effective from July 1, 1998, Partner has the exclusive right to use the *Orange* brand in connection with personal communications services and promoting its network services in Israel for as long as Partner is able and legally eligible under the laws of Israel to offer telecommunications services to the public in Israel. The license is royalty-free until July 1, 2013, and the parties may negotiate the terms and fees for operating the license thereafter.

Our Vietnam operation uses the “*HT Mobile*” trademark, which is owned by Hanoi Telecommunications Joint Stock Company, our BCC partner in Vietnam.

Licenses and network infrastructure

We are dependent on the licenses we hold to provide our telecommunications services. Further detail on the issue and regulation of licenses can be found in “—Regulation.” The table below summarizes the significant licenses held by our group as of June 15, 2007 and details of their related network infrastructure:

Country and Service Area	License Expiration Date	Network Type
Hong Kong	November 2020	GSM 800/900
Hong Kong	September 2021	1800 PCS
Hong Kong	November 2008	CDMA IS95B
Hong Kong	October 2016	UMTS
Hong Kong	June 2010	Fixed-line
Macau	July 2010	GSM 900/1800
Macau	June 2015	UMTS
Israel	February 2022 ⁽¹⁾	GSM 900, GSM 1800, UMTS
Israel	January 2027	Domestic fixed-line
Thailand (25 provinces)	N/A ⁽³⁾	CDMA2000 1X ⁽²⁾
Indonesia	N/A ⁽³⁾	GSM 1800/UMTS
Vietnam	April 2018 ⁽⁴⁾	CDMA 2000 1X
Sri Lanka	February 2012	GSM 900/1800
Ghana	December 2019	CDMA2000 1X

(1) License may be renewed for additional six-year term.

(2) The licenses are held by CAT Telecom. Through Hutchison CAT, we provide marketing services to CAT Telecom. See “—Operating companies review—Thailand.”

(3) License is for an unlimited period to the extent PT Hutchison CP complies with its terms and the prevailing laws and regulations.

(4) License is held by Hanoi Telecommunications.

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Regulation

Our operating companies are generally subject to regulation governing the operation of their business activities. Such regulation generally takes the form of industry-specific law and regulation covering telecommunications services. The following sections describe the regulatory framework and the key regulatory developments in the countries in which we have operations.

Hong Kong

Overview

Hong Kong's telecommunications regulatory regime is considered pro-competition and pro-consumer. The Telecommunications Authority is a public officer appointed by the Chief Executive under the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong), or the Telecommunications Ordinance. The Telecommunications Authority is supported by OFTA, the executive arm of the Telecommunications Authority.

The Telecommunications Ordinance, together with subsidiary legislation such as the Telecommunications Regulations and various statements, guidelines and codes of practice issued by the Telecommunications Authority, operate to form the overall regulatory landscape of Hong Kong's telecommunications industry. The Communications and Technology Branch of the Commerce Industry and Technology Bureau of Hong Kong, or CITB, is responsible for developing the telecommunication policies for Hong Kong and monitors the overall regulatory regime. The industry itself also plays a role in the development of the regulatory environment. OFTA regularly issues consultation papers to solicit views of the public and industry in respect of proposed guidelines and regulations that would subsequently form part of the regulatory framework governing Hong Kong's telecommunications market.

Acquisitions and merger of telecom carriers in Hong Kong are subject to the merger control regime under the Telecommunications Ordinance. There are no specific investment restrictions on foreign companies wishing to invest in Hong Kong-based telecommunications operators or service providers. However, OFTA's guidelines generally require that license applicants are companies incorporated or registered under the laws of Hong Kong.

Licensing framework

The Telecommunications Ordinance sets out the overall licensing framework for Hong Kong's telecommunications market. Essentially, no person may establish or maintain any means of telecommunications without an appropriate license. The Telecommunications Regulations and the Telecommunications (Carrier Licenses) Regulation set out the prescribed forms of licenses that may be issued under the Telecommunications Ordinance.

Spectrum allocation

The Telecommunications Authority has the power to allocate frequencies and bands of frequencies in all parts of the radio spectrum used in Hong Kong, and he is obligated to promote the efficient allocation and use of the radio spectrum as a public resource of Hong Kong. The title to all radio frequencies remains with the Hong Kong government. When the Telecommunications Authority grants a mobile carrier license, he will simultaneously allocate to the licensee a particular band of frequency on the radio spectrum to be used for the provision of the mobile telecommunications services.

Spectrum policy review

When concluding its consultation on the renewal of 2G licenses in November 2004, the government of Hong Kong announced that it would commence a spectrum policy review in 2005 on the overall policies of allocation and assignment of radio spectrum for telecommunications and related services, including mobile and fixed services. CITB carried out a 3-month consultation on "Spectrum Policy Framework" in October 2006 and issued a statement in April 2007 concluding its review of the government's spectrum policy and promulgating the "Radio Spectrum Policy Framework" for future spectrum management. The framework stated that the government would employ, as far as possible, a market-based approach in future spectrum management. As a general guideline, spectrum that may be available to the market will be assigned by way of auction or other open bidding process. Spectrum use for non-government use would be subject to payment of spectrum utilisation fees.

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Review of fixed mobile convergence

OFTA has reviewed the existing regulatory framework in view of the growing convergence of fixed and mobile services. It conducted a consultancy and consultation on fixed and mobile convergence in 2006. Topics included the current fixed/mobile interconnection regime and its charging arrangement, unified licensing for fixed, mobile and convergent services and fixed/mobile number portability. OFTA issued its decision statement in April 2007 and stated that OFTA would withdraw with effect from April 2009 the existing regulations on the asymmetrical fixed and mobile interconnection arrangement whereby mobile operators are required to pay interconnection charges to fixed operators in respect of calls originated from or terminated at mobile networks. Fixed and mobile operators were encouraged to conclude their commercial agreements for future interconnection arrangements during the two-year transition period. The government is going to introduce in the near future a unified licensing framework that suits fixed and mobile operators and convergent services. The government will conduct a market survey before deciding whether or not to introduce fixed/mobile number portability.

Broadband wireless access

OFTA issued consultation papers in December 2004, August 2005 and, most recently, May 2007 regarding the licensing framework for the deployment of broadband wireless access. OFTA stated in its consultation paper of May 2007 that it intends to license broadband wireless access services under the new unified carrier licence in 2008. The relevant spectrum assignment would be conducted by way of auction.

Licensing of CDMA2000 Service

OFTA conducted a consultation on licensing CDMA 2000 service in October 2006 and announced its decision in April 2007 that the government will proceed to auction in about October 2007 a spectrum block of 7.5MHz x 2 in the 850MHz band for CDMA2000 service.

Licenses

2G licenses

We use GSM and CDMA network technologies for our 2G mobile operations in Hong Kong. We currently hold two 2G licenses. The first 2G license is Mobile Carrier License (No. 85), or License No. 85, under which we are now providing both GSM service and CDMA service in the 800/900 MHz radio spectrum band. License No. 85 licenses CDMA service for three years up to November 2008 and GSM service for 15 years up to November 2020.

The second 2G license currently held by us is Mobile Carrier License (No.90), or License No. 90, under which we are now providing personal communication services in the 1800 MHz radio spectrum band. Licence No. 90 is for a period of 15 years up to September 2021.

Under License No. 85 and License No. 90, the spectrum assigned under these licenses will be subject to spectrum utilization fees. These fees are calculated as a percentage of network turnover. However, for an initial period of five years from the date of issue, the spectrum utilization fees are for a fixed amount to minimize the impact they will have on the licensees' operating costs. Unlike 3G licenses, these 2G licenses do not require the licensees to provide performance bonds in support of their spectrum utilization fee payment obligations.

The Telecommunications Authority has stated that the open network access requirements stipulated in the replacement 2G licenses need not be complied with during the first five years of the license.

The Telecommunications Authority has stated that the open network access requirements stipulated in the replacement 2G licenses need not be complied with during the first five years

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3G licenses

On October 22, 2001, we obtained a 3G license in the 1900–2200–MHz radio spectrum band for Hong Kong. The term of the license is 15 years, commencing from October 22, 2001. Under the license, we and other 3G licensees are subject to open network access requirements to make available up to 30% of the capacity of our networks for use by non–affiliated mobile virtual network operators and service providers. The network capacity is determined as the sum of the capacities of the installed base station equipment plus the extra capacity that can reasonably be deployed through the addition or reconfiguration of base station equipment in a prescribed period of time. However, this does not impose an obligation on the licensees to deploy additional carriers or base station sites.

For the first five years of the term of the license, we paid an annual spectrum utilization fee of HK\$50 million. For the remaining years, the annual spectrum utilization fee will be the higher of 5% of our network turnover or a progressively increasing prescribed flat fee (starting from HK\$60,124,000 for the sixth year). 3G licenses require operators to adopt separate accounts for their network and service operations in accordance with a prescribed accounting manual.

Fixed–line licenses

On June 30, 1995, OFTA awarded us a fixed telecommunications network services (FTNS) license to provide fixed–line telecommunications network services in Hong Kong. The license is valid for 15 years from June 30, 1995 and, at the discretion of the Telecommunications Authority, may be renewed for such further period not exceeding 15 years as the Telecommunications Authority thinks fit. The license authorizes us to offer basic voice services, data services, integrated services digital network, or ISDN, which supports the transmission of voice, data and images over conventional telephone lines, fast packet switch and intelligent network services.

In addition to the FTNS license, we also hold various public non–exclusive telecommunications service (PNET) licenses used in other areas of our fixed–line telecommunications business, including for our data center and broadband services. The term of each of these licenses is one year and is renewable annually subject to payment of the relevant renewal fees.

Key industry regulatory issues

Interconnection

The Telecommunications Authority may prescribe interconnection obligations or otherwise attach them to a license as conditions. Additionally, OFTA has provided statements setting out configuration and principles for interconnection arrangements. The Telecommunications Authority also has the power to determine the terms and conditions of interconnection which may include any technical, commercial and financial terms and conditions as the Telecommunications Authority considers fair and reasonable.

Fixed–line interconnection

The interconnection obligations under an FTNS license requires the license holder to:

- interconnect its fixed–line network with other licensed fixed networks and, where directed by the Telecommunications Authority, with other licensed telecommunications networks and services;
- use all reasonable endeavors to ensure interconnection is carried out promptly, efficiently and at charges that are reasonable; and
- provide facilities and services reasonably necessary for prompt and efficient interconnection.

Fixed–line interconnection is divided into two types based upon the physical modes of interconnection as follows:

- **Type I**—interconnection between network gateways; and
- **Type II**—interconnection at a point on the local loop.

On July 6, 2004, the Hong Kong government announced its decision to withdraw Type II interconnection policy for local fixed–line telecommunications services at the telephone exchange level in order to promote investment and consumer choice in high bandwidth customer access networks. The withdrawal, which is being implemented in an orderly manner on a building–by–building basis, applies to buildings already connected to at least two self–built customer access networks. The withdrawal will be fully implemented across Hong Kong by June 30, 2008. Thereafter mandatory Type II interconnection will be maintained as a safety net in buildings in which it is not technically feasible or economically viable for an operator to roll out its customer access network. In addition, Type II interconnection will continue to be maintained in respect of copper–based local loops at the street level and copper wires of in–building systems.

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Fixed and mobile interconnection

On July 8, 2005 OFTA issued an industry consultation paper titled "Review of the Need for Regulation, and Methodologies for the Calculation, of Interconnection Charges for Interconnection between Local Fixed Carriers and Value-Added Services and Mobile Services." After conducting a consultancy, OFTA carried out a consultation on fixed and mobile interconnection under the overall topic of fixed and mobile convergence. OFTA issued its decision statement in April 2007 and stated that OFTA would withdraw with effect from April 2009 the existing regulations on the asymmetrical fixed and mobile interconnection arrangement whereby mobile operators are required to pay interconnection charges to fixed operators in respect of calls originated from or terminated at mobile networks. Fixed and mobile operators were encouraged to conclude their commercial agreements for future interconnection arrangements during the two-year transition period. The government is going to introduce in the near future a unified licensing framework that suits fixed and mobile operators and convergent services. The government will conduct a market survey before deciding whether or not to introduce fixed/mobile number portability.

External gateway and local network interconnection

We operate a number of external gateways to connect to overseas telecommunications carriers via submarine and overland cables. The external gateways are connected to the local public switched telephone network, or PSTN, by backhaul cables. We have concluded bilateral agreements with more than 40 overseas telecommunications operators on routing of external traffic to and from Hong Kong. We use our external gateways to deliver our IDD and international bandwidth services as well as to support wholesale business for other external telecommunications services licensees and overseas telecommunications operators.

Tariff setting

The Telecommunications Ordinance does not contain any express provisions regulating retail tariffs or setting principles as to initial tariffs. It does, however, require licensees to publish tariffs in accordance with the requirements of their respective license or directions issued in writing by the Telecommunications Authority. In addition, various requirements are imposed on licensees which are dominant in any particular market.

The general conditions of an FTNS license set out a more stringent framework with respect to licensees that are dominant in a particular market. Prior to January 2005, PCCW was the only fixed-line carrier in Hong Kong deemed to be dominant. OFTA issued a statement in January 2005 which revoked the tariff approval requirements applicable to PCCW and converted PCCW's FTNS license to a new fixed carrier, or FC, license. Under the new FC license, PCCW is no longer presumed dominant in any market sector and any alleged abuse of dominant position will be assessed on a case-by-case basis on an ex-post manner. Along with the removal of the presumption of dominance, the FC license also allows PCCW to offer discounts to its published tariffs subject to a 24-hour advance notification to OFTA. OFTA has extended an offer to other FTNS license holders to exchange their existing FTNS licenses for new FC licenses.

Internet telephony

On January 6, 2006, OFTA introduced a new Service-Based-Operator, or SBO, license for the provision of Internet Protocol, or IP, telephony services. An SBO license is a service-based license operated under a two-class (Class 1 & Class 2) regulatory regime for the provision of IP telephony services. Class 1 services are those services that have all the attributes of conventional telephone services, and licensees under Class 1 are required to fulfil the licensing conditions of the fixed telecommunications network services / fixed carrier licenses relevant to the provision of local voice telephony services. Class 2 services are those services that do not have all the attributes of conventional telephone services, and Class 2 licensees are only subject to minimal licensing conditions with the main purpose to protect consumer interests and safeguard competition. An SBO license is valid for one year, and is renewable on an annual basis.

Existing FTNS licensees are allowed to provide Class 1 services with their existing licenses. If an FTNS operator wishes to operate Class 2 services, it may apply to the Telecommunications Authority for the replacement of its license with an FC license which has incorporated the appropriate special conditions that waive the applicability of certain license conditions to the operation of Class 2 services.

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Regulatory enforcement

The Telecommunications Authority may at any time revoke, suspend or cancel a license or vary the conditions thereof by a notice served in writing on the licensee or by public notice. Additionally, the Telecommunications Authority may impose a financial penalty on a licensee where the licensee breaches any of its license conditions, any provision of the Telecommunications Ordinance or any regulation made thereunder or any direction issued in respect of the licensee by the Telecommunications Authority. Upon application to a court, a financial penalty may be as high as 10% of the turnover of the licensee in the relevant telecommunications market in the period of the breach, or HK\$10 million, whichever is higher. If any person is aggrieved by a decision of the Telecommunications Authority with regards to competition matters, an appeal may be made to the Telecommunications (Competition Provisions) Appeal Board.

India

Overview

The New Telecommunications Policy 1999, or NTP 1999, and the Telecom Regulatory Authority of India Act, 1997, or the TRAI Act, together with subsidiary regulations and guidelines, form the overall regulatory landscape of India's telecommunications industry. The Department of Telecommunications of India, or DoT, performs the role of licensor and policy maker. The Telecom Regulatory Authority was established in 1997 and is an autonomous body with quasi-judicial powers to regulate telecommunications services in India. The regulatory functions of the Telecom Regulatory Authority, as specified by the TRAI Act, fall within two broad categories—recommendatory and mandatory.

The principal recommendatory functions of the Telecom Regulatory Authority may be exercised either on its own initiative or on request from the licensor on matters ranging from introduction of new telecommunications operators, terms and conditions of licenses to be awarded to telecommunications operators, revocation of licenses, measures to facilitate competition and promote efficiency in the operation of telecommunications services, measures for the development of telecommunications technology, efficient management of the available spectrum and any other matter related to the telecommunications industry. The recommendations of the Telecom Regulatory Authority in respect of all of the matters referred to above are not binding upon the Indian government.

The principal mandatory functions of the Telecom Regulatory Authority include fixing tariffs, ensuring compliance with the terms and conditions of licenses, fixing the terms and conditions of interconnection arrangements between telecommunications operators, ensuring technical compatibility and effective interconnection between different telecommunications operators, regulating revenue-sharing arrangements among telecommunications operators, ensuring effective compliance of universal service obligations, establishing standards of quality of service to be provided by telecommunications operators and ensuring the quality of service, periodically surveying such service in order to protect the interests of the consumers and establishing and ensuring the time period for providing local and long distance services between telecommunications operators.

The Telecom Regulatory Authority also has the authority to levy fees and other charges at such rates and in respect of such services as it may determine, and to perform such other functions, including administrative and financial functions, as may be entrusted to it by the Indian government or as may be necessary to implement the provisions of the TRAI Act.

Foreign investment in the telecommunications sector is regulated through the Indian government's telecommunications industry policy under the Industrial Policy of India, or the Industrial Policy, and the Foreign Exchange Management Act, 1999, as amended, or FEMA. While the Industrial Policy prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA specifies similar limits as specified under the Industrial Policy and regulates the precise manner in which such investments can be made. The government bodies responsible for granting foreign investment approvals, where prior approval is required, are the Foreign Investment Promotion Board of the Government of India, or Foreign Investment Promotion Board, and the Reserve Bank of India, which is the central bank of India. In November 2005, the aggregate permitted foreign investment in companies providing certain telecommunications services was increased from 49% (measured by counting only interests held directly) to 74% (measured by counting interests held either directly or indirectly).

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Regulations governing mobile operations

Revenue sharing percentage

License fees are structured as a percentage of the revenue earned under the license with a one-time entry fee. Service areas are classified into three categories ('A' through 'C') based principally on their revenue-generating potential, with the Category 'A' service area having the highest revenue potential. Mobile telecommunications operators in metropolitan areas and category 'A' service areas are required to pay a license fee equal to 10% of adjusted gross revenues, or AGR, and mobile telecommunications operators in category 'B' and 'C' service areas are required to pay a license fee of 8% and 6% of AGR, respectively. Further, the first two mobile licensees in each of the non-metropolitan service areas (whether in category 'A,' 'B' or 'C') have been given additional reductions of two percentage points, subject to a minimum of 5% of AGR, for a period of four years effective from April 1, 2004. Accordingly, the license fee for such licensees in non-metropolitan service areas will be 8%, 6% and 5% in category 'A,' 'B' and 'C' service areas, respectively.

In addition to the license fee, the DoT has specified that an additional charge will be levied on mobile telecommunications operators for use of spectrum, depending upon the spectrum allotted. If the spectrum allotted is up to 4.4 MHz+4.4 MHz, the royalty charge will be 2% of AGR and if the spectrum allotted is up to 6.2 MHz+6.2 MHz, the royalty will be 3% of AGR. Additional spectrum, up to 10 MHz+10 MHz, may be assigned to mobile telecommunications operators who have a customer base of 500,000 or more. For this additional spectrum, if assigned, an additional charge of 1% of AGR will be levied. Thus the total spectrum charge to be paid by mobile telecommunications operators that have spectrum availability of up to 10 MHz+10 MHz would be 4% of their AGR. Mobile telecommunications operators who have a customer base of 1.2 million or more are entitled to apply for additional spectrum beyond 10 MHz+10 MHz. Under the current spectrum policy, each mobile telecommunications operator is entitled to spectrum up to 15 MHz+15 MHz per service area, although the allocation may be in smaller blocks and will depend on availability. Additional royalty for use of spectrum for point to point links and access links is also payable as specified by the Wireless and Planning Co-ordination Wing of the DoT.

License fees must be paid quarterly in arrears to the Indian government with quarter-to-quarter adjustments.

Tariffs

Tariff ceilings are set by the Telecom Regulatory Authority pursuant to guidelines issued by it, and telecommunications operators are required to charge for services in compliance with such guidelines. Pursuant to the Telecommunication Tariff Order, 1999, or TTO 1999, the Telecom Regulatory Authority stipulated a maximum tariff that may be charged by mobile telecommunications operators. Under TTO 1999, mobile telecommunications operators must specify a monthly rental and airtime charge per minute with a pulse duration of 30 seconds as a "Reference Tariff Package." There can be a maximum of 25 alternative tariff plans, including both post-paid and prepaid tariff plans.

Interconnection

NTP 1999 permitted mobile, basic, cable service and radio paging operators to interconnect and share infrastructure with any telecommunications operators within the same service area. In December 2001, the Telecom Regulatory Authority issued the Telecommunications Interconnection (Charges and Revenue Sharing) Regulations, 2001, relating to arrangements among telecommunications operators for interconnection charges and revenue sharing.

In July 2002, the Telecom Regulatory Authority issued the Telecommunications Interconnection (Reference Interconnect Offer) Regulations, 2002, pursuant to which any mobile, basic, national long distance or international long distance telecommunications operators holding a 30% share of total activity in a licensed telecommunication service area is required to publish, with the approval of the Telecom Regulatory Authority, a reference interconnect offer describing the technical and commercial conditions for interconnection with other service providers. The reference interconnect offer is required to form the basis for all interconnection agreements executed with such telecommunications operator, provided that two parties by mutual agreement may modify the terms and conditions in the reference interconnect offer. A reference interconnect offer may be changed only with prior approval from the Telecom Regulatory Authority.

In October 2003, the Telecom Regulatory Authority amended the Telecommunications Interconnection Usage Charges Regulations, 2003, which had been issued in January 2003 and which had introduced a "calling party pays" regime, and issued new regulations, referred to herein as the October 2003 Interconnection Regulations. The October 2003 Interconnection Regulations provide interconnection usage charges only for termination and carriage of calls. The October 2003 Interconnection Regulations also specify distinct "access deficit charges" whereby all telecommunications operators are required to collect additional amounts on certain calls and pay these amounts to the prescribed fixed line operators to compensate them for certain revenue deficits arising from regulated lower rentals and tariffs. The interconnection charges under the October 2003 Interconnection Regulations became effective as of February 1, 2004.

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Intra-circle mergers

DoT issued intra-circle merger guidelines in February 2004. These guidelines cover the acquisition and merger of companies holding cellular telecommunications licenses in the same license area. Hutchison Essar's acquisition and merger of BPL Mumbai, a licensee for GSM mobile services in the telecommunications license area of Mumbai, India, is subject to the prior approval of DoT under these merger guidelines because it already holds a license for Mumbai.

The merger guidelines prescribe certain conditions before an intra-circle merger can be considered:

- following completion of the intra-circle merger, there must still be at least three operators holding cellular licenses for that license area; and
- the merged entity should have no more than 67% market share in that license area.

Although Hutchison Essar believes its acquisition of BPL Mumbai is in compliance with the merger guidelines, this is the first application pursuant to these guidelines considered by the DoT, and as such no assurance can be given that the application will not be delayed or denied, or that any approval will not be subject to conditions that are unacceptable.

Foreign ownership restrictions

Pursuant to Press Note No. 3 (2007 Series), dated April 19, 2007, or the press note, the Ministry of Commerce & Industry, Department of Industrial Policy & Promotion, Secretariat of Industrial Assistance, replaced Press Note 5 (2005 Series) dated November 2005 which had increased the aggregate permitted foreign investment in companies providing certain telecommunications services from 49% (measured by counting only interests held directly) to 74% (measured by counting interests held either directly or indirectly). The press note states that the aggregate foreign investment will include investment through foreign institutional investors, non resident Indians, foreign currency convertible bonds, American depository receipts, global depository receipts, convertible preference shares and proportionate foreign investment in the companies holding shares of the licensee company and their holding companies.

The press note requires that the remaining 26% shareholding in such company should be owned by resident Indian citizens. The proportionate foreign investment in such Indian company will also be included while calculating the 74% foreign investment limit.

Pursuant to the press note, foreign investment up to 49% is automatically approved, while Foreign Investment Promotion Board approval is required to hold interests in excess of 49%. It further states that each operating company will be required to disclose the levels of aggregate foreign investment in the company and certify that such levels are within the 74% limit on a half-yearly basis.

The press note also specifies the following restrictions:

- the majority of the directors on the board of each operating company shall be Indian citizens;
- the chief technical officer in charge of technical network operations and the chief security officer should be Indian citizens resident in India;
- the DoT will have the power to designate any additional key positions that should be held by Indian citizens resident in India;
- the chairman, managing director, chief executive officer, and chief financial officer will require security clearance if such positions are held by foreign nationals;
- no traffic from subscribers within India to other subscribers within India should be routed through any place outside India;
- the operating company should not transfer to any person or place outside India any (a) accounting information relating to subscribers, (b) user information, or (c) information regarding infrastructure and network;
- the operating company must provide traceable identification of its subscribers; and
- no remote access should be provided to any equipment manufacturer or any other agency outside India in connection with maintenance or repairs.

Pursuant to the press note, companies were given three months from the date of notification to comply with the specified conditions.

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Licenses

Mobile telecommunications services licenses

A mobile telecommunications operator requires a license from the Indian government prior to providing mobile telecommunications services. The licenses specify, among other terms, the type of network system to be installed or type of services to be provided, the frequency spectrum allocated for the network system, the geographical region in which the licensee may provide the service, the license term and the fee payable by the license holder to the Indian government.

NTP 1999 provides for the following categories of licenses for telecommunications services:

- a unified license for telecommunications services, permitting the licensee to provide all telecommunication/telegraph services covering various geographical areas using any technology; and
- a license for unified access (basic and mobile) services, or UAS License, permitting the licensee to provide basic and/or mobile services using any technology in a defined service area.

In connection with UAS Licenses, guidelines were issued by the Indian government in November 2003. Under these guidelines, there is no limitation on the number of UAS Licenses that can be granted in any service area. With respect to unified licenses for all telecommunications services, the Telecom Regulatory Authority issued a consultation paper in March 2004 discussing the framework for a unified licensing regime and proposed charges, fees, operational conditions and guidelines and the Telecom Regulatory Authority subsequently issued recommendations to the Indian government, but the government has not yet issued guidelines, and it is uncertain when any guidelines will be issued.

General

The mobile telecommunications services licenses held by Hutchison Essar and its subsidiaries contain substantially similar terms. All licenses are non-exclusive and the Indian government reserves the right to grant additional licenses to private mobile telecommunications operators, without limitation as to number, after recommendations from the Telecom Regulatory Authority with respect to the timing and the terms of entry of a new mobile telecommunications operator. The terms and conditions of the licenses may be modified at any time by the applicable licensor, if it is deemed necessary or expedient to do so in the interests of the general public, for national security or for the proper conduct of telecommunications services.

Term and renewal

Each license is valid for an initial period of 20 years. The licensor may extend the period of the license by 10 years at one time, upon the request of the licensee (provided such request is made during the 19th year of the license period), on mutually agreed terms. The decision of the licensor shall be final in respect of the grant of an extension.

Technology

Technology must always be digital and based on standards issued by the International Telecommunications Union, Telecom Engineering Center or any other international standards organizations.

Roll-out obligations

The non-metro licenses require that at least 10% of the designated district headquarters (DHQs) be covered within the first year of the license and 50% of the DHQs within three years.

Penalty

The licensee is liable to pay liquidated damages of between INR500,000 and INR70 million (depending upon the number of weeks of delay) for failure to provide the service and/or failure to satisfy its roll-out obligations within the specified periods. In addition to liquidated damages, the licensor may also impose a financial penalty of up to INR500 million for violation of the terms and conditions of the license agreement.

Termination

The licensor may at any time revoke or terminate the license upon the provision of 30 to 60 days' notice if (i) the licensee fails to provide any or all of the services within the time period specified in the license, (ii) the licensee fails to perform any of its obligations, including timely payments, under the license, (iii) the licensee becomes bankrupt or otherwise insolvent, (iv) the licensee transfers the license to a third party without the prior written consent of the licensor, or (v) such revocation is deemed to be in the public interest. For a failure to perform or a breach of any obligation, a licensee is given a 30-day period (or such longer period as specified by the licensor) to cure such failure or breach.

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Expropriation

The licensor has the right to take over the entire services and networks or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or low intensity conflict type of situations.

Competition

The licensee is required to ensure that no single company or legal person, either directly or through its associates, holds substantial equity, *i.e.*, equity of 10% or more, in more than one licensee in the same service area for the same service. The licensee is further required to ensure compliance with the provisions of the Indian Monopolies and Restrictive Trade Practices Act, 1969, as amended.

Technical approvals

Approvals from the Wireless and Planning Co-ordination Wing of the DoT are required to be obtained for assignment of radio frequency channels (microwave link frequencies and frequencies for mobile telecommunications networks). In addition, clearance from the Standing Advisory Committee on Radio Frequency Allocation is required for setting up cell sites. Certificates from the Telecommunications Engineering Center are also required for approving point of interconnect in mobile service areas.

Israel

Overview

Partner operates within Israel primarily under the Communications Law (Telecommunications and Broadcasting), 1982, or the Telecommunications Law, the Wireless Telegraphy Ordinance (New Version), 1972, or the Wireless Telegraphy Ordinance, the regulations promulgated by the Israeli Ministry of Communications and its license. The Ministry of Communications issues the licenses that grant the right to establish and operate mobile telephone services in Israel, and sets the terms by which such mobile telephone services are provided. The regulatory framework under which Partner operates consists also of the Planning and Building Law, 1965, the Consumer Protection Law, 1981, and the Non-Ionizing Radiation Law, 2006. Additional areas of Israeli law may be relevant to its operations, including antitrust law, specifically the Restrictive Trade Practices Law, 1988, the Class Actions Law, 2006, and administrative law. The Israeli telecommunications market is in a state of transition, moving to a more liberalized environment in which various markets, such as the mobile, international services, and domestic markets and infrastructure, are gradually being opened to competition and in which government-owned monopolies are being privatized. As a result, there is a possibility that changes may take place in the regulatory framework described below.

The principal law governing telecommunications in Israel is the Telecommunications Law and related regulations. The Telecommunications Law prohibits any person, other than the State of Israel, from providing public telecommunications services without a license issued by the Ministry of Communications.

Regulation by the Ministry of Communications

The Ministry of Communications has the authority to amend the terms of any license and require Partner to submit details of any of its services for approval. Pursuant to Partner's license, the Ministry of Communications must approve its standard agreement with customers, and review its prospective tariffs and the payments it charges customers. Partner has submitted its standard agreement to the Ministry of Communications for approval. To date, Partner has not received any comments from the Ministry of Communications regarding this agreement. In addition, Partner is required to inform the Ministry of Communications 30 days prior to the activation of certain specified types of services.

Partner's license requires it to interconnect its mobile telephone network to other telecommunications networks operating in Israel, including that of Bezeq, the other mobile telecommunications operators and the international telecommunications operators in Israel. Conversely, Partner must allow other telecommunications operators to interconnect to its network. The Ministry of Communications, with the consent of the Minister of Finance, may also promulgate regulations to determine interconnect rates.

The Ministry of Communications has promulgated regulations that, coupled with a change effected in the mobile telephone operators' licenses, impose a uniform call and SMS termination tariff. In November 2004, the Ministry of Communications announced regulatory changes significantly reducing call termination tariffs and SMS termination tariffs. These changes included reducing call termination tariffs, effective March 1, 2006, from NIS0.32 to NIS0.29 per minute, with additional reductions mandated as follows: effective March 1, 2007, to NIS 0.26 per minute; and effective March 1, 2008, to NIS 0.22 per minute. At the same time, the Ministry of Communications reduced SMS termination tariffs, effective March 1, 2006 to NIS 0.025.

The interconnect tariffs are linked to the Israeli Customer Price Index (CPI), such that the call termination tariffs were adjusted to NIS 0.2659 per minute and the SMS termination tariffs were adjusted to NIS 0.0256. The tariffs described above will be adjusted each March pursuant to changes in the CPI.

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In addition, the Ministry of Communications further announced that billing units will be reduced from the present intervals of up to 12 seconds to 1 second, effective December 31, 2008. Furthermore, the Ministry of Communications indicated that it intends to start implementing a process to bring about unification of rates for calls terminating on and off an operator's network and to disallow charging customers with a separate interconnect tariff. Preliminary hearings with the cellular operators in Israel on this matter commenced in August 2005, but have been suspended and are expected to be resumed in 2008.

On March 29, 2005, an amendment to the Telecommunications Law was adopted that requires the Minister of Communications to put into place a mobile number portability plan and, separately, a fixed-number portability plan, by September 1, 2006. Despite efforts to introduce the requisite technology and to coordinate the transition to number portability by September 2006, at present, none of the cellular or fixed-line operators in Israel has implemented number portability. Partner as well as two other cellular companies has filed a petition with the Israeli High Court of Justice requesting that the court order the Government of Israel and the Ministry of Communications to show cause for failing to amend the Telecommunications Law in order to postpone the number portability implementation deadline. Consequently, since September 2006, all relevant telecommunications license holders, including Partner, face the risk of claims for violating the Telecommunications Law and the terms of the general license without having the ability to comply with the law or the license. Individual subscribers have sought to intervene in the petition and have also filed a purported class action against Partner and other mobile and fixed-line operators based on the alleged failure to comply with the number portability requirements.

In May 2007 the Ministry of Communications of Israel announced that the latest implementation date for number portability would be December 1, 2007. The Ministry of Communications has, despite announcing the later date, stated that it is nonetheless considering imposing monetary sanctions on relevant telecommunication license holders, including Partner, in accordance with the Telecommunications Law for allegedly violating their obligations to implement number portability by September 2006. Partner has until June 24, 2007 to submit its position to the Ministry of Communications.

The Ministry of Communications is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by foreign network operators' customers while in Israel using Partner's network as well as for calls made by Partner's customers using their handsets abroad. Because Partner considers roaming charges to be a significant source of revenue, such regulatory limits could adversely affect the company's revenues.

In November 2006, Partner's license was amended in a manner that obligates it as of January 2007 to provide, in all calls made to its customers that are directed to voicemail, an announcement that the call is being directed to voicemail. Partner is not allowed to charge for a call terminated up to one second after the announcement is made. Such regulation has adversely affected its financial results.

In January 2007, the Ministry of Communications published a policy regarding VOB services. The policy, among other things, allows licensed third parties to access the infrastructure of Bezeq and HOT in order to provide VOB services to customers, charging customers directly, with no need to pay to the access owner any usage fees. Partner's domestic fixed-line license was amended in February 2007 in accordance with this policy.

In January 2007, the Ministry of Communications appointed a public committee to formulate recommendations regarding the policy and principles of competition in the Israeli telecommunications market. The issues to be examined by the committee include the structural separation of activities, such as transmission and content, including the structural separation of Bezeq; the requirement that licensed telecommunication companies provide access to their infrastructure to other companies; and the principle of convergence arrangements between mobile and fixed-line operators, as well as between voice service providers and video and data service providers. Partner has submitted its position and recommendations to the committee.

In January 2007, the Telecommunications Law was amended to provide that the Ministry of Communications is authorized to impose significant monetary sanctions on a license holder that breaches a provision of its license, which breach causes, or may cause, significant harm to the public or to competition.

In March 2007, the Ministry of Communications engaged NERA, an international consulting firm, to review the level of competition in Israel's mobile market and to review whether to allow the entry of new operators, including MVNO operators, in the Israeli telecommunications market. Based on the findings of their review, the Ministry of Communications may opt to grant licenses to MVNOs, who may use Partner's infrastructure or other cellular operators' infrastructure to offer mobile telephone services.

In April 2007, the Ministry of Communication initiated a hearing process to consider limiting mobile operators' ability to offer tariff plans that are based on one-minute billing units and other billing units longer than twelve seconds. Limiting Partner's ability to offer a variety of tariff plans, including those based on different billing units, may adversely affect its business.

Partner's license

No person, other than the State of Israel, may provide public telecommunications services in Israel without a license issued by the Ministry of Communications.

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On April 7, 1998, the Ministry of Communications granted Partner a general license to establish and operate a mobile telecommunications network in Israel for a period, following an amendment to the license in June 2002, of 20 years from February 1, 2002. Partner paid a license fee and associated costs totaling approximately NIS1,571 million. In the December 2001 spectrum auction in Israel, Partner was awarded additional spectrum (GSM 1800 MHz spectrum and UMTS third-generation 1900 MHz and 2100 MHz spectrum). Partner's license was then amended to include the terms for the grant of the additional spectrum to Partner. The cost of the license amendment was NIS180 million for the GSM 1800 spectrum, payable in two installments and NIS220 million for the UMTS third-generation spectrum, payable in six installments.

In 2004, Partner's license was amended to allow for adult voice services through all cellular media including voice, picture, chat and dating services. The access to adult voice services is through a domestic dialing code by a plan set by the Ministry of Communications and a service number that Partner allocates to the provider of the adult voice services. Access to the adult voice services is automatically barred as a default for all subscribers unless they specifically request the service and verify that they are over 18 years of age. This amendment has been applied to all cellular operators, to Bezeq and recently to the international operators. The Ministry of Communications will hold the operators and not the content providers liable and accountable for any infractions of this amendment. Additional amendments to the license during 2006 extended the restricted access for adult voice services described above to 3G technologies, including non-voice and internet services provided (directly and indirectly) either through phone calls to numbers allocated by Partner or through its internet portal.

On March 9, 2005, Partner's general license was further amended upon Partner's notice to the Ministry of Communications that it had met the requirements set out in the license amendment. The principal elements of this amendment are as follows:

- Partner's founding shareholders and their approved substitutes must hold, in the aggregate, at least 26% of each of Partner's means of control;
- Israeli entities from among Partner's founding shareholders and their approved substitutes must hold at least 5% of its issued share capital and of each of its means of control. "Israeli entities" are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications;
- at least 10% of Partner's board of directors must be appointed by Israeli entities, as defined above, among Partner's founding shareholders or their approved substitutes, provided that if the board is comprised of up to 14 members, only one such director must be so appointed, and if the board of directors is comprised of between 15 and 24 members, only two such directors must be so appointed;
- a new board committee shall be formed to deal with national security matters. Only directors with the required security clearances issued by the Israeli government and those deemed appropriate by Israel's General Security Service may be members of this committee; and
- The Minister of Communications shall be entitled to appoint an observer to the board of directors and its committees, subject to certain qualifications and confidentiality undertakings.

In November 2006, Partner's license was again amended. The principal elements of this amendment were as follows:

- it is required to operate a telephone information service which provides telephone listings for its customers. It is also obligated to share its telephone customer listing information with other operators to be used in their telephone information systems.
- For telephone calls transferred to its customers' voicemail, it is required to allow the calling party an opportunity to disconnect the call within the first few seconds without incurring a charge.

In March 2007, Partner's license was further amended. Among the changes was a requirement not to provide access to services, whether from Partner or an external content supplier, if the customer has not specifically requested access to such service and for which there is a significant charge to the customer. Partner must also inform customers that they have the ability to block access to such services.

Partner's license may be extended for an additional six-year period upon request to the Ministry of Communications and confirmation being received from the Ministry that certain performance requirements have been met. Partner may also request renewal of its license for successive six-year periods thereafter, subject to regulatory approval.

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Partner must pay royalties to the State of Israel every quarter based on its chargeable revenues, as defined in the relevant regulation, from mobile telecommunications services. In November 2004, the Ministry of Communications announced that from January 2006 the rate of royalties payments will be reduced annually by 0.5% from 3.5% to a level of 1%.

As a condition of its license, Partner must at all times be a company registered in Israel, in which citizens and residents of Israel, as determined by Israeli law, must hold at least 5% of Partner's issued share capital and of any means of control in Partner. Partner's license provides restrictions on changes of control and on the direct or indirect transfer of 10% or more of any means of control in Partner, such as voting or other control rights. The Ministry of Communications takes into account indirect interests in Partner when calculating whether someone has 10% or more of the means of control in Partner.

On May 30, 2004, the Ministry of Communications gave its approval to the restructuring and the indirect transfer of shares in Partner by Hutchison Whampoa as a result of our listing on the Hong Kong Stock Exchange and the New York Stock Exchange. The Ministry of Communications also gave its confirmation that, following the listings and for so long as the Hutchison Whampoa group remains our single largest shareholder and retains at least 30% of our total issued share capital, it will not be a breach of Partner's license should any person transfer or acquire shares in our company that would constitute an indirect transfer or acquisition of means of control in Partner requiring the prior consent of the Ministry of Communications without such prior consent having been obtained, provided that our board of directors, promptly following its becoming aware of such transfer or acquisition, notifies Partner and, in accordance with our articles of association, suspends specified voting rights conferred by those shares. The specified rights are the voting rights attaching to those shares on any resolution or matter before a general meeting of our company that concerns the activities of Partner or the appointment of a director or managing director of Partner, and the voting rights of any of our directors who has been appointed by or at the direction of the holder of those shares to our board of directors on any resolution or matter before a meeting of our board of directors that concerns the activities of Partner or the appointment of a director or managing director of Partner. The suspension is required to remain in force until the grant or obtaining of any approvals of the Ministry of Communications required under Partner's license.

Partner's stock was initially listed on Nasdaq and the London Stock Exchange in October 1999 and on the Tel Aviv Stock Exchange in July 2001. In connection with Partner's initial public offering, the license was amended by the Ministry of Communications to provide that certain transactions related to a public offering would not be considered a transfer of any means of control. If publicly traded shares or share equivalents, such as ADSs, are transferred in breach of the license restrictions, Partner must notify the Ministry of Communications and request the consent of the Minister of Communications within 21 days of learning of the breach. In addition, should a shareholder, other than a founding shareholder, breach these or other restrictions, unless the consent of the Minister of Communications is obtained, its shareholdings may be converted into dormant shares, with no rights other than the right to receive dividends and other distributions to shareholders, and to participate in rights offerings.

The existence of shareholdings which breach the restrictions of Partner's license in a manner that could cause them to be converted into dormant shares, or may otherwise provide grounds for the revocation of Partner's license, will not serve in and of themselves as the basis for the revocation of the license so long as, among other conditions, the principal shareholders of Partner continue to hold in the aggregate at least 26% of the means of control of Partner.

Partner's license generally prohibits cross-control or cross-ownership among competing mobile telecommunications operators without a permit from the Ministry of Communications.

During a period of an emergency, control of Partner's mobile radio telecommunications system may be assumed by any lawfully authorized person for the security of the State of Israel to ensure the provisions of necessary service to the public, and some of the spectrum granted to Partner may be withdrawn. In addition, Partner's license requires it to supply certain services to the Israeli defense and security forces. Furthermore, certain of Partner's senior officers are required to obtain security clearance from Israeli authorities.

ISP license

In March 2001, Partner received a special license issued by the Ministry of Communications, allowing it through its own facilities to provide Internet access to both mobile and fixed network customers. The license is valid until March 2008.

Other licenses

The Ministry of Communications has granted Partner a trade license pursuant to the Wireless Telegraphy Ordinance. This license regulates issues relating to servicing and trading in equipment, infrastructure and auxiliary equipment for Partner's network.

Partner has also been granted a number of encryption licenses that permit it to handle data encryption, as provided in the aforementioned licenses, within the framework of providing mobile radio telephone services to the public.

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Domestic Fixed-Line License. In January, 2007, the Ministry of Communications granted Partner a license for the provision of domestic fixed-line telecommunications services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years provided that the company has complied with the terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The license was amended in February 2007 to grant Partner the right to offer VOB services using the infrastructure of Bezeq and HOT to access customers and to provide them with fixed-line telephony service without any payment to the infrastructure owner.

Transmission License. Following Partner's purchase of a fiber-optic transmission business from Med-1 in March 2006, the Ministry of Communications granted Partner in August 2006 a special license for the provision of transmission and data communications services. This special license allows for the provision of digital transmission services over fixed lines to enable Partner's customers to create a data-link between customer sites and between the site of one customer and that of another. The special license also allows Partner to enter into agreements to charge its customers for this service and to lay, install, and connect cable to support the digital transmission services. The special license is valid through July 2007, or until such date as Partner will be granted an exclusive general license, the later of the two.

Antenna and other permits

The Ministry of the Environment is empowered to grant erection permits and operation permits for Partner's antennas. Partner must also obtain a building permit from local licensing authorities for the construction of most of its antennas. The construction of Partner's antennas may also be subject to the approval of the Civil Aviation Administration and the Israeli Defense Forces. Like other mobile telecommunications operators in Israel, Partner has experienced difficulties in obtaining some of these consents and permits, especially from local building authorities. As of December 31, 2006, approximately 20% of Partner's antenna sites were operating without local building permits or applicable exemptions. A substantial portion of these are microsites. Partner believes that a portion of the sites operating without permits from local authorities do not require local building permits under the Planning and Building Law, 1965. In addition, some of the building permits are not compatible with the antenna sites for which they were obtained. If it continues to experience difficulty in obtaining approvals for the erection of antenna sites, this could adversely affect Partner's existing network, delay the erection of additional antenna sites to its network and adversely impact its 3G network build-out. This difficulty could have an adverse effect on the extent, quality and capacity of Partner's network coverage and its ability to continue to market its products and services effectively. Partner's inability to resolve these issues in a timely manner could also prevent it from achieving or maintaining the network coverage and quality requirements contained in its license.

The Ministry of the Environment has adopted the International Radiation Protection Agency's standard as a basis for the consents it gives for the erection and operation of Partner's antennas. On January 1, 2006, the Non-Ionizing Radiation Law (5766-2006) was enacted, which defines the various powers of the Ministry of the Environment as they relate to, among other things, the granting of permits for antenna sites and sets standards for permitted levels of non-ionizing radiation emissions and reporting procedures. Pursuant to this law, which entered into effect on January 1, 2007, a request for an operating permit from the Ministry of Environment with respect to either new sites or existing sites would require a building permit for such sites. If Partner continues to face difficulties in obtaining building permits from the local planning and building committees, it may also fail to obtain operation permits from the Ministry of Environment. Operation of an antenna site without a permit from the Ministry of Environment may result in criminal and civil liability to Partner or to its officers and directors.

The extent of Partner's potential liability in connection with alleged health risks relating to antenna sites or in connection with alleged depreciation in the value of nearby properties as a result of the building of antenna sites may be increased as a result of a number of developments. Since National Building Plan 36 was approved, some planning committees have started to require that, as a precondition for issuing new permits for antenna sites, Partner submit an undertaking to indemnify the committee against claims for depreciation in the value of nearby properties as a result of issuing a permit to build, and the building of, antenna sites. Under the Non-Ionizing Radiation Law, the National Council for Planning and Building was granted the power to determine the level of indemnification that must be undertaken by cellular companies as a precondition for obtaining a building permit for a new or existing antenna site that requires such a permit. The National Council has decided that until National Building Plan 36 is amended to reflect a different indemnification amount, cellular companies will be required to indemnify the committees in full against all losses resulting from claims against a committee for reduction in property values. Thus, at present, in order to obtain a building permit for a new or existing antenna site, Partner must provide full indemnification for the reduction of property value. Partner cannot predict whether the legal requirement to provide full indemnification will be adopted in the amended National Building Plan 36, nor can it predict when National Building Plan 36 will be amended. To date, Partner has provided over 100 indemnification undertakings to local authorities. These developments may have a material effect on Partner's financial condition and results of operations, as well as plans to expand and enhance network coverage.

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Like other mobile telecommunications operators in Israel, Partner provides repeaters, also known as bi-directional amplifiers, to customers seeking an interim solution to weak signal reception within specific indoor locations. These repeaters, installed by Partner at the customers' premises upon their request, consist of an indoor box attached to a small outdoor antenna of between 40 and 70 cm (approximately one to two feet), receive signals from a network antenna site and amplify them within a specific room or rooms. The radiation emission from these outdoor antennae is comparable to that of a handset that is transmitting a signal. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other mobile telecommunications operators, Partner has not requested permits under the Planning and Building Law for the repeaters. The Ministry of Communications, however, has granted a type approval for the repeaters.

Partner has received approval from the Ministry of Communications to sell and distribute the handsets and other terminal equipment it sells. The Ministry of the Environment also has authority to regulate the sale of handsets in Israel, and under the new Non-Ionizing Radiation Law, certain types of devices that are radiation sources, including cellular handsets, have been exempted from the requirement to obtain an approval from the Ministry of Environment, so long as the radiation emitted by these devices does not exceed the radiation level permitted under the Non-Ionizing Radiation Law. However, since June 15, 2002, Partner has been required to provide information to purchasers of handsets on the specific absorption rate of the handsets as well as the handsets' compliance with certain standards pursuant to a regulation under the Consumer Protection Law.

Thailand

Overview

The National Telecommunications Business Commission, or NTBC, which is the regulatory body responsible for administering the Telecommunications Business Act 2001, or TBA, was established on October 1, 2004. The NTBC can now fully exercise its role as Thailand's telecommunications regulator to regulate telecommunications matters in Thailand and has enacted a number of subordinate regulations to implement the provisions of the TBA including, regulations governing interconnection, standard mobile service contracts and customer complaint process.

The inherited concession system

Up until the enactment of the TBA on November 17, 2001, Thai law reserved to the government the right and authority to install, maintain and provide telegraph and telephone services within Thailand. These rights were initially assigned to the Post and Telegraph Department and later assumed by two governmental bodies, CAT Telecom and TOT Corporation Public Company Limited (the successor to the telecommunications business operations of the former Telephone Organization of Thailand), or TOT Corporation, each of which was established under its own statute. Between them, the Post and Telegraph Department, CAT Telecom and the TOT Corporation regulated the Thai telecommunications industry, with the Post and Telegraph Department being responsible for spectrum allocation and the issuance of licenses required under the Radio Communications Act 1955 for the ownership or use of radio frequency equipment.

CAT Telecom was entitled to conduct telecommunications operations in its own right. However, in many cases private-sector technical expertise and capital were required to establish and operate mobile telecommunications networks. This was achieved through the award of "concessions," contracts to build and operate telecommunications networks, which typically required the concession holder to transfer ownership of the network to CAT Telecom. During the period of a concession, CAT Telecom invariably receives a percentage of revenues derived from the operation of the telecommunications business authorized by the concession. The ability of CAT Telecom to grant concessions ceased on March 8, 2000, on the enactment of the Act on Organizations Allocating Frequency Spectrum and Regulating Radio and Television Broadcasting and Telecommunications of Thailand, or the Frequency Act, and CAT Telecom no longer has a regulatory role.

Our business operations in Thailand are conducted mainly through two entities, Hutchison CAT and BFKT. Hutchison CAT provides exclusive marketing services to CAT Telecom in respect of CAT Telecom's mobile telecommunications services in central Thailand, an area that covers 25 of Thailand's 76 provinces. BFKT leases mobile telecommunications equipment and accessories to CAT Telecom and provides CAT Telecom with support and maintenance services in respect of those equipment and accessories. The provision of these services does not require either Hutchison CAT or BFKT to obtain any approval or concession granted by either CAT Telecom or the TOT Corporation. However, BFKT holds approvals granted by the Post and Telegraph Department, which allow it to own the mobile telecommunications equipment and accessories that it has leased to CAT Telecom.

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Regulatory framework

The TBA was enacted and became effective on November 17, 2001. The NTBC was established on October 1, 2004.

On August 3, 2005, the NTBC issued regulations on the issuance of licenses and licensing criteria. Subsequent to the issue of these regulations, TOT Corporation and CAT Telecom were granted telecom business licenses on August 4, 2005 that covered the telecommunication services that these two companies had been offering prior to the enactment of the licensing regulations, including the CDMA mobile communication services offered by CAT Telecom.

The NTBC has also issued regulations governing activities that qualify as a telecommunications business and requires a license and allocation of telephone numbers, interconnection, standard mobile service contracts, customer complaint process, personal information and privacy, prescribing prohibited acts having the nature of foreign dominance or business takeover or business control measures preventing monopoly actions or creating unfair competition in telecommunications business operations and contracts in relation to telecommunications business operation entered into with foreigners. Under the transitional provisions of the TBA, concessionaires of CAT Telecom or TOT Corporation are allowed to continue operating their telecommunications businesses in accordance with the rights under their existing concessions prior to the TBA coming into force until termination of such concessions. Concessionaires will have the ability to convert their concessions to licenses under the TBA but are not compelled to do so.

If a concessionaire wishes to convert its concession to a license, it is likely to be bound by the foreign ownership restrictions of the TBA, which are presently more restrictive than those applying to many concessionaires. There is much uncertainty regarding the manner in which concessions may be converted to licenses, as conversion is likely to put to an end the revenue sharing arrangements which provided significant revenue streams for CAT Telecom, and the requisite consent of CAT Telecom is unlikely to be provided unless satisfactory compensation is provided for the loss of ongoing revenue.

While we have been advised by Thai legal counsel that our current business activities do not constitute a telecommunications business that requires a license pursuant to licensing regulations, the NTBC may potentially interpret that some of our existing business activities in Thailand as a telecommunications business, which could require Hutchison CAT or BFKT to obtain one of three types of licenses required to be held by an operator of a telecommunications business. Such licenses are subject to restrictions on foreign investment that Hutchison CAT and BFKT may not be able to meet.

Interconnection

The NTBC issued a notification on interconnection in May 2006. The notification requires that interconnection to unbundled elements of telecommunications networks be charged on a cost-oriented basis. Per-minute interconnection charges will be payable under the new interconnection regime and the current access charge regime, under which interconnection charges are calculated by reference to number of customers and/or revenues, will likely be replaced.

In 2006, the NTBC has approved the reference interconnection offers and interconnection charge rates of TOT Corporation and of concessionaires (Advanced Info Services, Total Access Communications and True Move Company Limited). Advanced Info Services, Total Access Communications and True Move Company Limited have signed bilateral interconnection contracts among each other and have implemented interconnection under the NTBC's interconnection regime since February 1, 2007.

TOT Corporation has stated that it will only apply the NTBC's interconnection regime to new telecommunication entrants and existing concessionaires must still continue to pay access charges to it. Thus, TOT Corporation has not entered into any interconnection contracts with Advanced Info Services, Total Access Communications or True Move Company Limited. CAT Telecom has also not entered into any interconnection contract with concessionaires because the NTBC is still in the process of reviewing the reference interconnection offer and interconnection charge rates of CAT Telecom.

Regulatory enforcement

Penalties for breaching the TBA include seizure of telecommunications equipment if a judgment is made against a person operating a telecommunications business without a license, penalties up to THB10 million, and imprisonment terms of up to five years. If the wrongdoer to be punished under the TBA is a juristic entity, the penalties will also apply to the managing director, managers or persons responsible for the operation of the juristic entity, unless it can be proved that the wrongdoing was committed without their knowledge or consent.

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Sri Lanka

Overview

The telecommunications sector of Sri Lanka has shown significant progress in the past few years, mainly owing to the recent liberalization of the industry.

Regulatory Framework

In Sri Lanka, the telecommunications sector is governed by the Sri Lanka Telecommunications Act No.25 of 1991, as amended by Act No. 27 of 1996, or the Telecommunications Act, and the governing body is the Telecommunications Regulatory Commission of Sri Lanka, or TRCSL, which was established under the Telecommunications Act. The TRCSL regulates licensing, spectrum allocation, tariffs and all other industry-related issues, and presently comes directly within the purview of the President of Sri Lanka.

Licensing

An operator must obtain a license from the President of Sri Lanka, on the TRCSL's recommendation. All applications for licenses must be made through the TRCSL.

Separate licenses are issued for fixed-line and mobile operators. Operators may apply for other types of licenses, including licenses to provide Internet service, public payphone services and external gateway operations, or EGO for international services.

Hutchison Lanka operates under a license to operate cellular mobile services issued under the Telecommunications Act in 1992. It is effective for a period of 20 years, until 2012. In 2003, Hutchison Lanka obtained an EGO license to operate EGO services.

Foreign Investment

In recent years, the government of Sri Lanka has encouraged foreign investment in the telecommunications sector with a goal of expanding tele-density in the country. Foreign investors are permitted to hold 100% of a telecommunications company. At present, all of the mobile telecom companies in Sri Lanka are either fully-owned or partly-owned by foreign investors.

Tariff regulation

Mobile operators are not permitted to market their own tariffs. All tariff packages offered must be approved by the TRCSL.

Tariffs for mobile services comprise charges for air-time, value added services, roaming, connection fees and charges for other additional facilities.

Interconnection

Telecommunications operators in Sri Lanka currently operate under a "sender keeps all" system in which they charge each other a flat fee for access to a certain amount of transmission capacity, rather than billing each other on the basis of use. Although rules to regulate domestic interconnection were published by the TRCSL in 2003, the implementation of these rules was suspended because a "calling party pays" regime system was anticipated to become effective at the time. However, because the calling party pays system was not implemented due to public protests, the sender keeps all system continues to be operation.

In early 2007, TRCSL commenced discussions with operators to change the current interconnection regime. While recommending the implementation of the rates determined by the 2003 interconnection rules, TRCSL has requested operators to propose the interconnection rates to be charged among operators.

Spectrum Allocation

Several consultations were carried out during 2003-2004 in the telecom industry of Sri Lanka, on the allocation/re-assignment of spectrum. At present, there are four frequency bands being utilized for PSTN services: namely 900 GSM, 1800 GSM, 850 CDMA and 3G. Hutchison Lanka operates GSM services in the 900 MHz and 1800 MHz bands.

Ghana

The National Communications Authority Act, 1996 (Act 524), or the NCA Act, is the principal legislation governing the telecommunications sector in Ghana. The National Communications Authority, or NCA, is the regulatory authority of the telecommunication sector. The NCA manages and controls the use of the radio frequency spectrum, is the issuing authority of the use of spectrum to mobile telecommunications operators, grants licenses, and provides guidelines on tariffs.

Foreign investors may invest in the telecommunications industry through a Ghanaian registered company or partnership.

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Interconnection between telecommunications operators is by agreement between the operators or as determined by the NCA if the operators are unable to agree. Interconnection agreements between telecommunications operators are subject to the approval of the NCA. Mobile telecommunications operators set and change tariffs without prior approval of the NCA. They must notify the NCA and the public of tariff rates and its changes.

The NCA replaced the licenses of all telecommunications operators with a new standard comprehensive form in December 2004 after the draft license had been forwarded to all telecommunications operators for comment. The authorized coverage remains nationwide. After satisfying certain conditions, we may also obtain permission to operate an international gateway and to offer fixed services.

Macau

The Macau mobile telecommunications market was liberalized in October 2000 when the government issued two new 2G mobile telecommunications licenses: one to us and one to another new entrant. We now hold a license that allows us to operate on the GSM 900 and GSM 1800 spectrums, which will expire on July 8, 2010. Union Telecom Limited, which we acquired in July 1991, has also held a radio paging license since February 1991.

In July 2006, we submitted our bid for 3G licence in response to the government opening three 3G licences for bidding. We were one of three operators awarded a 3G license in October 2006 to operate W-CDMA service. The 3G license for Macau was issued to us with effect from June 5, 2007 and is for a period of eight years. Under the terms of the license, we must commercially launch 3G service within 12 months from the date of the license and achieve territory-wide coverage in Macau within 15 months from the date of commercial launch.

A fourth 3G license could be issued within the next two years if DSRT considers it necessary.

Vietnam

Overview

Vietnam has made important fundamental changes in its legal environment with the objective of creating a robust and competitive telecommunications sector, which in turn provides the foundation for economic growth for the country's telecommunications industry. However, Vietnam's reform process remains incomplete. In term of transparency of regulations, the current regulatory body does not fully meet international standards of independence. This affects licensing, non-discriminatory interconnection and cross-subsidies in tariffs. In addition, Vietnam is behind schedule in implementing its obligations under bilateral agreements with other countries, particularly in respect of access for foreign investors. These issues cause uncertainty and risks for new market entrants and investors, which in turn limit network expansion, the introduction of new services and overall industry growth.

Regulatory framework

The telecommunications sector is regulated by the Ministry of Post and Telematics, or MPT, which is the primary driver of telecommunications strategies, policies and regulations. The MPT is in charge of policy-making and regulatory matters in post and telecommunications, IT, electronics, the Internet, radio transmission and emission, radio frequency management, and national information infrastructure.

The primary legislation that regulates the telecommunications sector in Vietnam is comprised of:

- the Ordinance on Posts and Telecommunications issued by the Standing Committee of the National Assembly on May 25, 2002, or the Telecoms Ordinance, and
- Decree 160/ND-CP issued on September 3, 2004, or Decree 160, providing for the implementation of the Telecoms Ordinance.

In addition, telecommunications projects are subject to the Investment Law and Corporation Law and implementing decrees and regulations.

Licensing

The provision of telecommunications services and the establishment of telecommunications networks in Vietnam must be licensed by the MPT. Although all license applications are made to the MPT and the MPT issues the licenses, the final decision on whether to grant a license in the telecommunications sector is ultimately made by the Prime Minister of Vietnam.

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The Telecoms Ordinance defines two types of licenses for telecommunications enterprises: network- or facility-based operations, or FBO, and service-based operations, or SBO. An FBO owns and operates its telecommunications network and sells service directly to end-users, or sells wholesale service to companies that resell the FBO's service. FBO licenses are only issued to state-owned enterprises, which are defined as an operator owned wholly or in part by the government. An SBO provides service that does not require network facilities, or leases on a wholesale basis network facilities for resale to end users. Ownership of SBO licenses is open to private sector ownership. However, an SBO license will only be granted to enterprises established under Vietnamese law, which contemplates four main types of enterprises: (i) state-owned enterprises, (ii) private limited companies; (iii) joint-stock (or shareholding) companies; and (iv) foreign-invested enterprises operating within certain sectors.

Licenses have initial durations that are not longer than 15 years for FBOs and 10 years for SBOs. The initial durations of the licenses may be extended only one time for a maximum period of 12 months.

Hanoi Telecommunications, an enterprise majority owned by state enterprises, with which Hutchison Vietnam has entered into a BCC, is the holder of a FBO license No.83/2003/GP-BBCVT dated April 28 2003 for the establishment of a ground mobile telecommunications network and the provision of mobile telephone services, supplementary services and value added services throughout Vietnam. The license has a term of 15 years.

Foreign Investment

Before joining the World Trade Organization, or WTO, Vietnam had a restrictive investment climate for foreign investors in the telecommunications industry. Although the Foreign Investment Law permitted both joint ventures and 100% foreign owned enterprises, neither could be used in the establishment and operation of telecommunications networks. Private domestic investment was permitted, but foreign investors could only invest through a BCC. The BCC is a form of investment in which Vietnamese and foreign partners agree to carry on an investment and business activity without creating a new entity. The parties agree to share profits and losses, in much the same way as a partnership. It is, in fact, a contractual joint venture and requires an investment license. One or both parties may contribute fixed or working capital but the division of profit will be what is agreed upon by the parties rather than being in the proportion of the capital contributions. The foreign party to a BCC may establish an operating or management office in Vietnam to implement the BCC. In addition, the parties to a BCC may also establish a supervisory committee to manage the relationship between the parties.

In the case of a BCC involved in the construction of public telecommunications networks and provision of telecommunications service, the Vietnamese party must be an FBO permitted to engage in relevant business activities. The Vietnamese party usually contributes access to the networks and some working capital while the foreign partner contributes money for new fixed capital that then becomes the property of the Vietnamese partner at the end of the project. Management control of the network remains with the Vietnamese party.

Hutchison Vietnam has entered into a BCC with Hanoi Telecommunications, a joint stock company that is the only operator in Vietnam owned by both state owned enterprises and private investors. The Ministry of Planning and Investment, or MPI, has granted Investment License No.2455/GP dated February 4, 2005 in respect of this BCC arrangement for a term of 15 years.

Under the new Investment Law, which took effect from July 1, 2006 and replaced the Law on Foreign Investment in Vietnam governing the operation of HT Mobile, foreign investment through a BCC structure is no longer compulsory for telecommunications services. For the first time, foreign investment in telecommunications services can be made in the corporate form of a joint venture company (as opposed to the unincorporated partnership of a BCC).

Pursuant to Vietnam's WTO commitments with effect from January 11, 2007, foreign investors using a BCC structure will have the option of renewing their current arrangements or converting into another form of "commercial presence" with conditions no less favorable than those they currently enjoy. Under the WTO commitments, "commercial presence" is allowed in the form of a facilities-based joint venture company for providers of basic services, such as HT Mobile, subject to minimum ownership of 51% by a state-owned operator or local operator that is controlled by the state.

Resolution 71/2006/QH11, which was passed by the National Assembly on November 29, 2006 ratifying WTO accession protocol for Vietnam to join the WTO, stipulates that any clear commitment in WTO accession protocol shall be applied directly, making the possibility of conversion from a BCC to a joint venture company clear. The MPT has several times confirmed that the Government of Vietnam will not interfere with the future status of existing BCCs and leave the possibility of conversion to the BCC partners' decision.

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Types of telecommunications services

Decree 160 classifies telecommunications services into three main categories:

- Basic telecommunications services, which includes mobile telecommunications services;
- Supplementary services; and
- Value added services, which include e-mail and voice mail.

Under the FBO license of Hanoi Telecommunications and the investment license issued by MPI, our BCC may establish a mobile ground telecommunications network and provide mobile ground telecommunications, supplementary and value added services.

Interconnection charges

Interconnection between competing networks is considered by the MPT as a critical mechanism for introducing market forces into a monopolistic telecommunications environment. Under the Telecoms Ordinance, all licensed telecommunications operators are entitled to connect to any other licensed network on the fulfillment of certain basic conditions. The Prime Minister's Decision 39/2007/QĐ-TTg dated March 27, 2007, relating to the regulation of postal and telecommunications service prices, or Decision 39, provides authorization to the Government, MPT and the Ministry of Finance on tariff management. Under Decision 39, on May 7, 2007, MPT issued Decision 07/2007/QĐ-BBCVT approving the telephone interconnection charges between two mobile telecommunications service operators. In addition, Decision 39 specifies that interconnection fees are to be set on a non-discriminatory basis to reflect the actual costs of interconnection and that such rates should be in line with interconnection fees of other countries in the region and around the world.

Tariff regulation

MPT regulates tariffs of VNPT as a dominant service provider, whereas other operators such as Hanoi Telecommunications are allowed to set their own tariffs. The MPT has introduced several provisions to reduce the tariffs and make them comparable to those of regional countries.

The scope for regulatory intervention under the Telecoms Ordinance with respect to service pricing remains significant. In particular, the Prime Minister may determine tariffs for "important telecommunications services" that affect various sectors and socio-economic development – a very wide category, for which there is as yet no official definition. In the absence of criteria for determining what falls into this category, the Prime Minister effectively has full discretion to determine the matter.

Indonesia

Overview

The primary source of regulation of telecommunications in Indonesia is Law No. 36 of 1999 concerning Telecommunications, or Law 36. Under Law 36, telecommunications are defined as any broadcasting, transmission and/or receipt and any information in the form of signs, signals, inscription, pictures, voice and sound through a cable, optic, radio or other electromagnetic system.

Law 36 is based on the principle that the operation of telecommunications in Indonesia is under control of the state and is managed by the government. The rationale for this is that telecommunications are an important strategic component in Indonesian national life and their operation must be aimed at achieving the maximum benefit for and prosperity of the people. In this context, by law the telecommunications sector is to be operated on the basis of principles of benefit for the people, equity and justice, legal certainty, security, partnership, ethics and self-confidence.

The Minister of Communications and Information Technology (previously the Minister of Transportation), or MCIT, is responsible for supervising, and authorized to issue regulations and ministerial decrees in relation to the implementation of, laws regarding telecommunications, which are typically broad in scope. The MCIT has used this regulatory authority to define the scope of exclusivity, formulate and approve tariff levels, determine operators' universal service obligations and regulate other aspects of telecommunication service operators' operations.

Since the beginning of 2007, different regulatory initiatives have taken place:

- consultation on retail tariffs
- consultation on a regulation on electronic transaction
- consultation on quality of service

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In addition, MASTEL, a telecommunications service providers association, is taking the initiative to request amendments to the Telecom Act of 1999 regarding, among others, competition, convergence and universal service fund administration.

Regulatory framework

In addition to the general principles set out in Law 36, the operation of telecommunications in Indonesia is further regulated by key implementing regulations, including Government Regulation No.52 of 2000 regarding Telecommunication Operations, or GR 52.

Under Law 36, “telecommunication operations” covers (i) telecommunications network operation, including mobile networks, (ii) telecommunications service operation, which consists of basic telephone services, value added services and multimedia services, and (iii) specific telecommunications operation, which is the operation of telecommunications which are specific in nature, purpose and operation.

Telecommunications network operation and telecommunications service operation may be undertaken by an Indonesian state owned enterprise, regional owned enterprise, private enterprise (which includes an Indonesian subsidiary of a foreign company, subject to various foreign investment rules) or cooperative, which is a specific form of cooperative venture under Indonesian law set up by a group of persons sharing a common economic interest. Under Law 36, a telecommunications network operator may also provide telecommunications services.

Specific telecommunications operation may be undertaken by an individual, governmental institution and/or legal entity other than a telecommunications network operator or telecommunications operator.

Telecommunications Licensing

Licenses for undertaking telecommunications business in Indonesia are issued by the MCIT and granted in two stages: principle license and operating license.

A principle license is granted to enable a telecommunications operator to prepare the facilities and infrastructure that are required for telecommunication operations. A principle license may be granted for a maximum period of three years and may be extended, at the discretion of the MCIT, only once for one year. A principle license may not be transferred to a third party.

After completing the set up of the facilities and infrastructure, a telecommunications operator must submit an application to the Directorate General of Post and Telecommunications, or the Directorate, which falls under the competence of the MCIT. The authorized institution accredited by the government will conduct the operational feasibility tests. The purpose of these operational feasibility tests is to examine and confirm that all of the facilities and infrastructure have been constructed properly and are ready to be operated from a technical perspective. Based on the results of the operational feasibility test, the Directorate will issue a certificate of operational worthiness.

Upon obtaining a certificate of operational worthiness and after complying with all terms and conditions stated in the principle license, a telecommunications operator may submit an application for an operating license. An operating license is normally granted without time limit but will be evaluated every five years.

Under GR 52, an operator of cellular mobile networks must provide the following basic telephone services: telephone, facsimile and data.

The Minister of Transportation granted PT Hutchison CP Principle License Number KP 304 of 2003 regarding the Operation of Cellular Mobile Network of Third Generation (3G) with National Coverage on October 13, 2003. PT Hutchison CP then obtained Certificates of Operation Worthiness Numbers (i) 1593/PT.003/Dittel/SRT/2004, (ii) 1594/PT.003/Dittel/SRT/2004 and (iii) 1595/PT.003/Dittel/SRT/2004 on September 15, 2004 issued by the Director of Telecommunication. On October 15, 2004 the MCIT issued Operating License No. KP.11 of 2004 to PT Hutchison CP. Under this operating license, PT Hutchison CP is entitled to conduct the following operations on a national basis:

- GSM dual band cellular mobile network system in the 1775MHz—1785 MHz (Up Link) and 1870 MHz–1880 MHz (Down Link) frequency bands;
- IMT–2000 dual band Cellular Mobile Network in the 1920–1925 MHz and 2110–2115 MHz frequency bands with an unpaired 2010–2015 MHz (TDD) frequency band; and
- basic telephone service.

PT Hutchison CP’s operating license is valid for an unlimited period to the extent that PT Hutchison CP complies with its terms and prevailing laws and regulations.

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Allocation of frequency

Separate from the operating license, the use of radio frequency for telecommunication operations requires a radio frequency band license, which is issued by the MCIT. This license is granted for the purpose of operating any radio communication equipment and is granted based on a two-stage examination process: (i) frequency allocation stage and (ii) determination of radio frequency stage. Upon obtaining this license, the holder is obligated to register the license with the Directorate.

The license is granted for up to ten years and may be extended for a further ten years, subject to evaluation. During the term of the license, evaluations will be conducted periodically to provide an understanding of performance and for public interest considerations. The results of the evaluations will be considered to determine whether the radio frequency utilization license should be extended or not.

The user of radio frequency for telecommunication business operations is obligated to pay an annual fee in advance for right to use the radio frequency. The fee is calculated based on a formula considering the following components:

- types of radio frequency;
- frequency band width;
- the scope of coverage;
- location; and
- market interest.

A radio frequency band license may be revoked for, among other things, violating the terms of use of the radio frequency band, violating provisions of an operating license and failure to make timely payment of radio frequency annual fees.

To promote equal treatment in the telecommunications industry among cellular mobile network operators, the MCIT recently issued Ministerial Regulation No. 29/KEP/M.KOMINFO/03/2006 regarding Allocation of Radio Frequency Bands and The Payment of Tariff for Radio Frequency Spectrum Band Utilization for Operators of Cellular Mobile Network IMT-2000 on Radio Frequency Band 2.1 GHz, or MR 29. Under MR 29, PT Hutchison CP is obligated to return part of its radio frequency band block 1925—1930 MHz in pairs with 2115—2120 MHz so each 3G cellular mobile network operator will be given equal 3G radio frequency band allocation. An additional 2 x 5 MHz on Radio Frequency Band 2.1 GHz may be allocated to each 3G cellular mobile network operator after January 1, 2008 by evaluation processes and upon performance of determined obligations, such as the payment of all outstanding fees.

Further, under MR 29, PT Hutchison CP is obligated to pay a prescribed up-front fee for 3G frequency allocation, at the latest, by January 31, 2008. The up-front fee for utilization of one block of 2.1 GHz frequency band for a period of ten years is IDR320,000 million. In addition, PT Hutchison CP is obligated to pay an annual 3G frequency utilization fee. The formula for the annual frequency utilization fee for the first ten years is calculated based on a specified percentage of the bidding price received by the government of Indonesia in relation to the auction of 2 x 5 MHz, adjusted for compounded interest. The specified percentage is 20% in the first year and increases to a maximum of 130% in the fifth year. The bidding price for the purpose of calculating PT Hutchison CP's annual fee is IDR160,000 million. Accordingly, the 2006 annual fee for PT Hutchison CP was IDR32,000 million.

Besides spectrum and license fees, PT Hutchison CP is obligated to pay, on an annual basis, a Universal Service Obligation fee in the amount of 1% of its annual gross income.

Tariffs

The tariffs applicable for telecommunications operations generally consist of telecommunication network operation tariffs and telecommunication service operation tariffs. The amount of tariff under GR 52 is calculated based on formulas stipulated by the MCIT.

The two types of tariffs for telecommunications network operation are network lease tariffs and interconnection tariffs. Network telecommunications operation tariffs also include charges for access fees, usage fees and universal contribution service fees.

The tariffs for telecommunications service operation through mobile network consist of tariffs for airtime, roaming and multimedia services. In addition, telecommunications services tariffs also include charges for cost of activation, cost of monthly subscription, cost of use and cost of additional facilities.

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Tariffs regulations are following international best practices insofar as after the deregulation of retail tariffs, the government has decided to let tariffs be self-regulated through competition. Only the dominant operator (PT Telekom) must have its tariffs approved by the DGPT. All other operator may implement/modify their retail tariffs upon notification to the DGPT and after one month's prior notice to customers.

Interconnection

On February 8, 2006, the MCIT issued Regulation No. 08/Per/M.KOMINFO/02/2006 on Interconnection, or Regulation 8. Regulation 8 replaced regulations issued in 1997, 1998, 1999 and 2004 concerning applicable tariffs and revenue sharing arrangements for interconnection services between providers. Under Regulation 8, interconnection charges will be calculated based on the cost of interconnection with effect from January 1, 2007. However, Regulation 8 does not provide for the termination rate of SMS/MMS to be cost-based. Currently, the termination of SMS/MMS is still subject to the "sender keeps all" principle.

Under Regulation 8, interconnection agreements must be based on a reference interconnection offer, or RIO, which must be published no later than 60 days after the RIO is confirmed in a ministerial regulation, and must be submitted to the Indonesian telecommunication regulatory authorities annually for evaluation.

Foreign investment approval

Telecommunications operations in Indonesia may only be conducted by an Indonesian legal entity. Such Indonesian entities may have foreign shareholders, subject to certain foreign investment rules.

Under the current applicable investment laws and regulations, certain business activities are closed to foreign investment. These business activities are listed in a "negative list" that is reviewed from time to time by the government. The current negative list is set out in the Presidential Decrees No. 96 of 2000 as amended by Presidential Decree No. 118 of 2000. Other than the negative lists, a Technical Guidance for Capital Investment 2002, or PTPM, issued by BKPM, also regulates and sets requirements for certain sectors which are open for foreign investment.

Under the prevailing negative list, the maximum foreign share ownership in the general telecommunications sector is set at 49%. However, PTPM provides that for telecommunication network operation, a maximum of 95% foreign share ownership is permitted for mobile satellite networks, very small aperture and fixed-line networks. Similarly, for telecommunication service operation, up to 95% foreign share ownership is permitted for value added telephone services and other telephone services.

The negative list, PTPM and general telecommunication regulations are currently silent on the maximum foreign share ownership in cellular mobile networks. In accordance with the requirements of applicable Indonesian investment laws, the current shareholdings in PT Hutchison CP have been approved by BKPM.

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B. Property, Plants and Equipment

We and our operating companies own, or control through long-term leases or licenses, properties consisting of plant and equipment used to provide mobile and fixed-line telecommunications services. In addition, we and our operating companies own, or control through leases, properties used as administrative office buildings and/or retail sales locations, customer service centers and research and development facilities. These properties include land, interior office space and space on existing structures of various types used to support equipment used to provide mobile and fixed-line telecommunications services. Most of the leased properties are owned by private entities and the balance is owned by municipal entities.

Plant and equipment used to provide mobile and fixed-line communications services consist of:

- switching, transmission and receiving equipment;
- connecting lines (cables, wires, poles and other support structures, conduits and similar items);
- land and buildings; and
- other miscellaneous properties (work equipment, furniture and plants under construction).

The majority of the lines connecting our services to other telecommunications operators and power sources are on or under public roads, highways and streets. The remainder are on or under private property.

The following table sets forth the total gross floor area of properties held by us and the total gross floor area of properties leased by us as of December 31, 2006, by country, and the principal uses of the properties.

Country	Gross Floor Area of Properties Held ⁽¹⁾	Gross Floor Area of Properties Leased ⁽¹⁾	Principal Uses
Hong Kong	52,271 ft ²	642,969 ft ²	Office; staff quarter; retail shop; customer service center; data center; switching center; warehouse
Macau	8,645 ft ²	31,966 ft ²	Retail shop; office; staff accomodation; warehouse
India	123,014 ft ²	1,756,722 ft ²	Office; warehouse; retail shop; guest house; staff accommodation
Israel	—	67,500 m ²	Office (including parking); call center; retail shop; service center
Thailand	2,736 m ²	22,920 m ²	Office; retail shop; warehouse; call center; switch center
Indonesia	—	7,339 m ²	Office; customer service center; switch center; warehouse
Vietnam	—	8,440 m ²	Office; switch center; retail shop; warehouse
Sri Lanka	37,566 m ²	3,458 m ²	Office (including parking); staff quarter; switch center
Ghana	—	12,081 m ²	Office (including parking); service center; staff quarter; warehouse
Others ⁽²⁾	—	1,573 m ²	Offices

(1) Does not include cell sites.

(2) Comprised of China, United States, Malaysia, Singapore, Taiwan and The Philippines.

As of December 31, 2006, certain properties owned by us in India and Hong Kong were used as collateral for certain of our borrowings.

We are subject to various environmental laws in the countries in which we have operations. Compliance with such laws has not had, and in our opinion is not expected to have, a material adverse effect upon the use of our properties, plants or equipment or on our results of operations.

C. History and Development of the Company

Corporate Information

Hutchison Telecommunications International Limited was incorporated in the Cayman Islands on March 17, 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Our principal offices are located at 20/F, Hutchison Telecom Tower, 99 Cheung Fai Road, Tsing Yi, Hong Kong, and our telephone number is +852 2128-3222.

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History

We were formed in March 2004 as a subsidiary of Hutchison Whampoa, a conglomerate based in Hong Kong, and listed on the main board of the Hong Kong Stock Exchange and New York Stock Exchange in October 2004. Hutchison Whampoa began its telecommunications business in Hong Kong in 1985 with the provision of analog mobile telecommunications services, and subsequently expanded into digital mobile telecommunications services. Since 2000, Hutchison Whampoa has pioneered the development of 3G mobile telecommunications technology and has rolled out 3G services in a number of countries in Western Europe and in Australia as well as Hong Kong. Set forth below is a summary of the principal telecommunications operations transferred to us upon completion of the restructuring of Hutchison Whampoa's telecommunications business in preparation for the listing of our shares on the main board of the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange and subsequent developments.

Hong Kong (including Macau). The Hutchison Whampoa group commenced mobile telecommunications operations in Hong Kong in 1985 and operated its mobile telecommunications business through Hutchison Telecommunications (Hong Kong) Limited, or Hutchison Telecommunications Hong Kong, and its subsidiaries. In January 2004, the Hutchison Whampoa group became the first mobile telecommunications services provider in Hong Kong to offer 3G services, under the 3 brand. Since May 31, 2004, all of Hutchison Whampoa's mobile telecommunications services in Hong Kong have been offered under the 3 brand.

In August 2001, the Hutchison Whampoa group launched GSM dualband mobile telecommunications services under the brand of *Hutchison Telecom* in Macau. Our service in Macau was re-branded under the 3 brand in 2005. In October 2006, we were awarded a 3G license in Macau. The 3G license for Macau was issued to us with effect from June 5, 2007.

The Hutchison Whampoa group also provides fixed-line telecommunications services in Hong Kong through Hutchison Global Communications under the brands *HGC* and *Hutchison Global Communications*. Hutchison Global Communications obtained its license in 1995. In March 2004 the Hutchison Whampoa group acquired a 52.5% interest in Hutchison Global Communications Holdings through the acquisition by Hutchison Global Communications Holdings of a wholly-owned subsidiary of Hutchison Whampoa, operating its fixed-line telecommunications and related businesses, in exchange for an issue of new shares and convertible notes. In July 2005 we privatized Hutchison Global Communications Holdings through the cancellation of Hutchison Global Communications Holdings shares not already held by us. Following the privatization, Hutchison Global Communications Holdings became our wholly-owned subsidiary and its listing on the Hong Kong Stock Exchange was withdrawn.

India. The Hutchison Whampoa group's presence in India began in February 1992 when Hutchison Whampoa, together with an Indian partner, established a company which in 1994 was awarded a license to provide mobile telecommunications services in Mumbai (formerly Bombay). Commercial operations began in late November 1995. At the time of the restructuring, the Hutchison Whampoa group effectively had interests in six mobile telecommunications operators with a total of 13 out of India's 23 service areas. The number of service areas was subsequently increased to 16 following the completion of Hutchison Essar's acquisition of HECL in January 2006. Hutchison Essar's mobile telecommunications services are provided in India under the *Hutch* brand. Service in Mumbai was provided under the *Orange* brand until December 2005, when Hutchison Essar re-branded Mumbai services under the *Hutch* brand.

On November 1, 2004, we received the approval of the Indian government's Foreign Investment Promotion Board to proceed with the consolidation of the Indian mobile telecommunications operators under an Indian holding company. On February 1, 2005, we completed the consolidation of the Indian operating companies, as a result of which five of the operating companies in India were consolidated under Hutchison Max Telecom Limited, which was renamed as Hutchison Essar Limited. Following the completion of the consolidation, we held an aggregate direct and indirect interest of approximately 56% in Hutchison Essar.

Following the announcement of new foreign direct investment rules by the Indian government in November 2005, we and the Kotak group undertook a review and reorganization of the joint venture structure through which we together held a 19.54% interest in Hutchison Essar. This was done in advance of and in anticipation of a possible public offering of Hutchison Essar's shares, as well as to comply with the new rules. Following this reorganization, we held, through wholly-owned subsidiaries, an aggregate direct equity interest of 42.34% of Hutchison Essar and an additional indirect interest through the joint venture, which held an aggregate equity interest of 19.54% of Hutchison Essar. Through their interest in this joint venture, Centrino and ND Callus, which are indirectly wholly owned by resident Indian citizens, held an aggregate indirect 12.26% equity interest in Hutchison Essar.

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In January 2006, Hutchison Essar completed the acquisition of HECL, which was a licensee for GSM mobile services in the license areas of Maharashtra, Tamil Nadu and Kerala. This increased the number of operating companies under Hutchison Essar from five to six and increased the number of license areas covered from 13 to 16.

In June 2006, we acquired a 45.79% interest in Omega Telecom, which held 5.11% of the issued share capital of Hutchison Essar. The remaining 54.21% of Omega Telecom was acquired in August 2006 by an investment holding company held by certain institutional investors.

In October 2006, Hutchison Essar completed the acquisition of Spacetel, the applicant for unified access (basic and mobile) services licences in seven remaining license areas in which Hutchison Essar did not operate: Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu and Kashmir. The licenses for six of these license areas were granted in December 2006 and a letter of intent, which is usually a precursor to the issuance of a license, was issued to Hutchison Essar with respect to Madhya Pradesh on March 5, 2007.

On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries, for cash consideration of approximately US\$11,080 million before costs, expenses, interest payable by Vodafone and warranty retention amounts held by Vodafone; in connection with the sale we also made settlement payments to a shareholder of Hutchison Essar. We agreed with Vodafone that for a period of three years from completion of the sale, we would not directly or indirectly carry on or become economically interested in, within India, any business carried on in competition with the business as carried on by Hutchison Essar, including the provision of telecommunications services for voice, data or video and/or the establishment and operation or maintenance in India of related infrastructure, facilities or equipment. Specifically excluded from those restrictions, among other things, were operating call centre or data centre services, establishing, owning or leasing, and maintaining and operating, international telecommunications capacity of whatever transmission media outside India and up to any related landing points in India and providing India mobile roaming services to our international customers through agreements with telecommunications operators.

Israel. The Hutchison Whampoa group established its presence in Israel in September 1997 when Hutchison Whampoa, together with local investors, formed Partner, which was awarded a nationwide license to provide mobile telecommunications services. Partner launched commercial operations in January 1999 and is now a public company, with shares listed on the Tel Aviv Stock Exchange and ADSs quoted on Nasdaq and traded on the London Stock Exchange. Partner provides mobile telecommunications services under the *Orange* brand. In December 2004, Partner launched 3G services. In April 2005, Partner became a consolidated subsidiary of our company following the completion of a share buyback by Partner, as a result of which our equity interest in Partner increased from 42.9% to over 50%. In July 2006, Partner acquired the transmission business of Med 1, including its fiber-optic cable infrastructure comprising a network of approximately 900 kilometers of submerged and terrestrial transmission fiber for approximately NIS 71 million (US \$17.0 million). In January 2007, Partner was granted a license for the provision of domestic fixed-line telecommunications services in Israel

Thailand. The Hutchison Whampoa group commenced operations in Thailand in February 2003 when Hutchison CAT, our joint venture with CAT Telecom, began marketing CAT Telecom's CDMA2000 1X network services under the *Hutch* brand under a marketing service agreement running until April 21, 2015.

Indonesia. In July 2005, we completed the acquisition of a 60% equity interest of PT Hutchison CP, the holder of a combined 2G and 3G mobile telecommunications license in Indonesia. In March 2007, we launched mobile telecommunications services in Indonesia under the "3" brand.

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Vietnam. In February 2005 our business cooperation contract with Hanoi Telecommunications was approved by the Ministry of Planning and Investment of Vietnam. Under the terms of the BCC, we agreed to jointly build, develop and operate a CDMA-based mobile telecommunications network in Vietnam and provide services over such network for a term of 15 years. In January 2007, we launched mobile telecommunications services in Vietnam under the brand name “HT Mobile.”

Sri Lanka. In August 1997, the Hutchison Whampoa group acquired a 100% interest in Lanka in Sri Lanka. We began providing mobile telecommunications services in December 1998 by setting up analog base stations around Colombo. We subsequently launched GSM services in 2000 throughout the interior and southwest regions of the country. We launched standard GSM services in the Colombo area in May 2004 under the *Hutch* brand. Our analog network around Colombo was shut down in July 2004.

Ghana. In 1998, the Hutchison Whampoa group acquired an 80% interest in Kasapa in Ghana. In January 2005, our equity and voting interest in Kasapa increased from 80% to 100%. Kasapa received a 15-year replacement license effective December 2, 2004 authorizing the provision of mobile cellular service on its present 800 MHz spectrum. Kasapa commenced offering CDMA service under this new license in September 2005 and shortly afterwards shut down the AMPS analog network that it had previously been using.

Disposals. We completed the sale of our operations in Paraguay on July 2005. In July 2006, we sold our wholly-owned subsidiary Vanda IT Solutions, which provided information technology solutions, and loans that we had extended to Vanda IT Solutions and its subsidiaries, to a wholly-owned subsidiary of our largest shareholder, Hutchison Whampoa.

The Restructuring

Prior to the listing in October 2004 of our shares on the main board of the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange, a number of steps were taken to transfer companies within the Hutchison Whampoa group to us in preparation for such listings as well as to effect a harmonization of the group structure. The objective of the restructuring was to establish our company as a holding company for some of the Hutchison Whampoa group's telecommunications interests.

In summary, the effect of the restructuring, which was completed in September 2004, was as follows:

- The Hutchison Whampoa group's telecommunications interests in Hong Kong and Macau, Thailand, Sri Lanka, Paraguay, Ghana and India were transferred under the ownership of a newly incorporated British Virgin Islands intermediate holding company, HTI (BVI) Holdings Limited.
- The Hutchison Whampoa group's telecommunications interests in Israel and Hutchison Vietnam were consolidated under the ownership of another British Virgin Islands holding company, Amber International Holdings Inc., or Amber International.
- The Hutchison Whampoa group will continue to operate its existing 2G mobile telecommunications businesses in Australia and Argentina and its 3G mobile telecommunications businesses in Western Europe and Australia through its other subsidiaries and affiliates.
- Certain companies within the Hong Kong and Macau group, and within the India group, were transferred out to remain with the retained business of the Hutchison Whampoa group, because they were retained businesses of the Hutchison Whampoa group or operations that do not form part of our operations.
- Amber International was transferred to and became 100% owned by a newly incorporated Cayman Islands company, Hutchison Telecommunications International (Cayman) Holdings Limited, or Hutchison Telecommunications International Cayman.
- The loans provided by Hutchison Whampoa and its affiliates to our operating companies were restructured, such that the loans to our Hong Kong operating companies were transferred by Hutchison Whampoa and its affiliates to a newly incorporated Hong Kong company, Hutchison Telecommunications International (HK) Limited, or Hutchison Telecommunications International HK, and the loans to our non-Hong Kong operating companies were transferred by Hutchison Whampoa and its affiliates to Hutchison Telecommunications International Cayman.
- All of the shares in Hutchison Telecommunications International HK and Hutchison Telecommunications International Cayman were transferred to us, and those companies became our 100% owned subsidiaries. Substantially all of the net loans to Hutchison Telecommunications International HK and Hutchison Telecommunications International Cayman were capitalized. In consideration for the transfer of such shares and capitalization of such loans, a total of 4,499,999,844 shares were allotted and issued to Hutchison Telecommunications Investment Holdings Limited, or Hutchison Telecommunications Investment, as fully paid.

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As part of the restructuring, we entered into a non-competition agreement with Hutchison Whampoa to maintain a clear delineation of our respective businesses going forward, principally on a geographical basis. The agreement delineates each party's territory for the purpose of implementing the non-competition restrictions. Hutchison Whampoa's territory comprises Western Europe (defined to include the European Union prior to its enlargement in 2004 and other countries such as Switzerland, Norway, Greenland and Liechtenstein), Australia, New Zealand, the United States, Canada and Argentina (unless and until we exercise our option to acquire the Hutchison Whampoa group's interest in Hutchison Telecommunications Argentina S.A., or Hutchison Argentina). Our territory covers all the remaining countries of the world.

The restrictions under the non-competition agreement will terminate one year after Hutchison Whampoa ceases to control, directly or indirectly, more than 30% of our issued ordinary share capital, unless on Hutchison Whampoa's cessation of interest another party controls, directly or indirectly, 30% or more of our issued ordinary share capital, in which case the restrictions will fall away immediately upon Hutchison Whampoa's cessation of interest. The restrictions will also terminate on the date on which our shares and ADSs are no longer listed on any internationally recognized stock exchange (provided that such delisting is voluntary and at our instigation). For more information about the terms of this agreement, see "Major Shareholders and Related Party Transactions—Related Party Transactions—Related party transactions with Hutchison Whampoa—Non-competition agreement."

Capital Expenditures and Divestitures

Our capital expenditures in 2004, 2005 and 2006 have been for the continuing build-out and expansion of our networks in the markets where we operate, including purchases of fixed assets and licenses and acquisitions of interests in existing third-party telecommunications companies as well as companies engaged in complementary or related businesses. The amounts of capital expenditures for these periods, broken out by geographical segment, are set out in "Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditure." We have traditionally met our working capital and other capital requirements principally from cash flow from our operating activities, borrowings by our subsidiaries from banks based on guarantees and/or pledges provided by Hutchison Whampoa and its affiliates and borrowings from the Hutchison Whampoa group of companies. We expect that we will continue to meet our financing needs primarily through the proceeds from our sale of CGP Investments Holdings to Vodafone, cash flow from our operating activities and borrowings by our subsidiaries from banks based on guarantees and/or pledges provided by our company. See "Operating and Financial Review and Prospects—Liquidity and Capital Resources."

D. Organizational Structure

Prior to December 21, 2005, Hutchison Whampoa indirectly owned approximately 74.3% of our outstanding ordinary shares. As described further in "Major Shareholders and Related Party Transactions—Major Shareholders," following the Hutchison Whampoa group's sale of our shares to Orascom Holding, which was completed on December 21, 2005, Orascom Holding acquired an equity interest in our company and Hutchison Whampoa's indirect equity in our company was reduced. As of June 15, 2007, Hutchison Whampoa and Orascom Holding held approximately 50.0% and 19.2% of our shares, respectively.

Hutchison Whampoa is a conglomerate based in Hong Kong and listed on the main board of the Hong Kong Stock Exchange. It operates five core business divisions around the world. The five divisions are: (1) ports and related services; (2) property and hotels; (3) retail and manufacturing; (4) energy, infrastructure, finance and investments; and (5) telecommunications.

Orascom Holding is a leading mobile telecommunications company operating in seven emerging markets in the Middle East, Africa and South Asia.

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We are a holding company for the following significant subsidiaries as of December 31, 2006:

	Place of incorporation / registration and operation	Percentage of equity interest held
Aircel Digilink India Limited (Note 1, 4)	India	52%
BFKT (Thailand) Limited (Note 2)	Thailand	49%
Essar Spacetel Private Limited (Note 1, 4)	India	52%
Fascel Limited (Note 1, 4)	India	52%
HCL Network Partnership	Hong Kong	100%
HTI (BVI) Finance Limited	British Virgin Islands	100%
Hutchison CAT Wireless MultiMedia Limited (Note 2)	Thailand	36%
Hutchison Essar Cellular Limited (Note 1, 4)	India	52%
Hutchison Essar Limited (Note 1, 4)	India	52%
Hutchison Essar Mobile Services Limited (Note 1, 4)	India	52%
Hutchison Essar South Limited (Note 1, 4)	India	52%
Hutchison Global Communications Limited	Hong Kong	100%
Hutchison GlobalCentre Limited	Hong Kong	100%
Hutchison MultiMedia Services Limited	Hong Kong	100%
Hutchison Telecom East Limited (Note 1, 4)	India	52%
Hutchison Telecommunication Services Limited	Hong Kong	100%
Hutchison Telecommunications (Hong Kong) Limited	Hong Kong	100%
Hutchison Telecommunications Information Technology (Shenzhen) Limited	China	100%
Hutchison Telecommunications International (HK) Limited	Hong Kong	100%
Hutchison Telecommunications Lanka (Private) Limited	Sri Lanka	100%
Hutchison Telephone (Macau) Company Limited	Macau	71%
Hutchison Telephone Company Limited	Hong Kong	71%
Kasapa Telecom Limited	Ghana	100%
Partner Communications Company Ltd.	Israel	51%
PT Hutchison CP Telecommunications	Indonesia	60%
3 Global Services Private Limited (Note 3, 4)	India	100%

- Note 1: Our 52% equity interest in each of these companies was comprised of (i) 42.34% equity interest, held through subsidiaries, in each of these companies; (ii) 37.25% equity interest in an investment holding company holding a 19.54% equity interest in each of these companies; and (iii) 45.79% equity interest in an investment holding company holding a 5.11% equity interest in each of these companies. In addition, we also held call options over the remaining shares of such investment holding companies and were committed to providing financial support for the shareholders of such investment holding companies.
- Note 2: In addition to our 49% and 36% beneficial interest in each of BFKT (Thailand) Limited and Hutchison CAT Wireless MultiMedia Limited respectively as disclosed above, we also hold call options over 51% and 30% beneficial interest in each of BFKT (Thailand) Limited and Hutchison CAT Wireless MultiMedia Limited, respectively.
- Note 3: As disclosed in Note 33(iii)(c), the beneficial interest in the call center business of 3 Global Services Private Limited was subject to a call option held by HCCH, a subsidiary of Hutchison Whampoa, which if exercised, would entitle HCCH to acquire the call center business owned by 3 Global Services Private Limited at a predetermined price.
- Note 4: Was effectively acquired by Vodafone on May 8, 2007 upon the completion of our sale of CGP Investments Holdings to Vodafone.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our consolidated accounts and the related notes included elsewhere in this annual report on Form 20-F. Our consolidated accounts have been prepared in accordance with HKFRS, which differs in some material respects from US GAAP. For a discussion of these differences and a reconciliation of net profit/(loss) attributable to equity holders of the Company and shareholders' equity to US GAAP, see note 36 to our accounts.

We showed improved performance in 2006, as we reported our first profit attributable to equity holders. In particular, we saw stronger operating results from both India and Israel, a return to operating profit at the mobile business in Hong Kong and a further reduction in operating loss in Thailand. In 2006, turnover from continuing operations increased by 37.0% to HK\$33,378 million, as our total customer base increased by 74.7% to 29.6 million customers as of December 31, 2006. Operating profit increased by 134.2% to HK\$5,045 million, reflecting improved margins, as the business continued to grow and benefit from economies of scale.

In addition, we undertook a number of transactions that affected our results for 2006 or will affect our results going forward.

- In January 2006, Hutchison Essar completed the acquisition of 100% of HECL, which operates in the three licence areas of Maharashtra, Tamil Nadu and Kerala in India, for a consideration of INR11,440 million (US\$256 million). We recorded an increase in goodwill of HK\$4,628 million (US\$595 million) arising from the acquisition of HECL.
- In March 2006, we reorganized our holding structure in Hutchison Essar in light of changes in the rules governing foreign direct investment in telecommunications operators in India. Following the reorganisation, we held a 37.25% interest in TII, an investment holding company held by us and two other parties, which indirectly owned 19.54% of Hutchison Essar. As a result, an increase in goodwill of HK\$1,716 million (US\$221 million) was recorded.
- In June 2006, we entered into an agreement to acquire an interest in Omega Telecom, which owns 5.11% of Hutchison Essar, for a total consideration of US\$450 million. As a result, an increase in goodwill of HK\$3,020 million (US\$388 million) was recorded.
- In July 2006, Hutchison Global Communications Holdings, our wholly owned subsidiary, disposed of its 100% interest in Vanda IT Solutions for a consideration of HK\$105 million (US\$13.5 million), subject to adjustments, to a wholly owned subsidiary of Hutchison Whampoa. There was no gain or loss arising from the disposal.
- In July 2006, Partner, our Israel operation, completed the acquisition of the transmission business of Med-1 for a consideration of NIS71 million (US\$17.0 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 of Israel to supply communication infrastructure services to Israeli companies. As a result we recorded negative goodwill of HK\$45 million (US\$5.8 million).
- On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries, for cash consideration of approximately US\$11,080 million before costs, expenses and interest payable by Vodafone. On May 8, 2007, we also entered into a supplemental deed with Vodafone pursuant to which Vodafone, in consideration for waiving certain potential claims against us under the sale and purchase agreement, was permitted to retain US\$352 million from the sale price to apply against certain specified liabilities which Vodafone might incur in connection with the interests that it had effectively acquired during a period of up to ten years following the date of completion of the sale. Having regard to the terms surrounding the retention and release of the amount retained by Vodafone, our board of directors has considered it prudent to make a full provision against recovery of any part of the amount retained by Vodafone.

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In connection with the sale of CGP Investments Holdings, in March 2007 we entered into a conditional settlement agreement with Essar Teleholdings and certain of its affiliates pursuant to which they agreed to, among other things: (i) refrain from doing anything that would prevent, delay or inhibit completion of the sale; (ii) use all reasonable endeavours to ensure that completion of the sale is achieved as soon as practically possible; (iii) waive any rights they have or claim to have in respect of certain matters including those related to the sale; and (iv) terminate certain agreements, alleged agreements and understandings relating to the relationship connected to Hutchison Essar. In consideration, upon completion of the sale, we agreed to make scheduled payments to an affiliate of Essar Teleholdings aggregating US\$415 million before interest, of which US\$373.5 million has now been paid.

As a result of the sale, we expect to realize an estimated pre-tax gain of approximately US\$9,000 million after taking into account the US\$415 million settlement amount payable to Essar Teleholdings, the US\$352 million amount retained by Vodafone, interest on the consideration paid to us by Vodafone, transaction costs and expenses. We also realized a net cash inflow of approximately US\$10,830 million before payment of the settlement amount to Essar Teleholdings.

During 2006, the Indian business accounted for 46% of our total turnover, 72% of our total operating profit and 42% of our total operating expenses. In addition, as of December 31, 2006, the Indian business held 40% of our total outstanding debt, all of which was effectively assumed by Vodafone upon completion of the sale of CGP Investments Holdings. Following the completion of the sale of CGP Investments Holdings to Vodafone, the results of the India operations for 2007 and prior years will be presented in our consolidated income statement as discontinued operations.

- On May 22, 2007, we declared a special dividend to shareholders equal to HK\$6.75 (US\$0.87) per share, or approximately HK\$32,230 million (US\$4,143 million) in aggregate, payable on June 29, 2007. The special dividend will be paid out of the proceeds from our sale of CGP Investments Holdings to Vodafone.

Basis of Preparation of Accounts

The results of operations of subsidiaries and associates acquired or disposed of during a year are included in our consolidated accounts commencing from the effective dates of their acquisition or up to the effective dates of their disposal, as the case may be.

During 2006, we changed certain accounting policies following the adoption of new or revised HKFRS (which term collectively includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and related interpretations) that were effective for accounting periods commencing on or after January 1, 2006. The impact of these changes in HKFRS is detailed in note 2(b) to our accounts.

Our subsidiaries are grouped into the following six segments for financial reporting purposes, based on their geographic area of operation and principal business line:

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

In the years prior to 2005, we had five segments for financial reporting purposes. In 2005, the number of segments increased to six as a result of the consolidation of Partner beginning in the second quarter of 2005.

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

“Others” is comprised of our operations in Sri Lanka, Ghana, Indonesia, Vietnam and operations of our corporate office, as well as the non-telecommunications businesses of Vanda IT Solutions up to the date of disposal of Vanda IT Solutions in July 2006. In July 2005, we completed the disposal of our operations in Paraguay. Accordingly, the results of our Paraguay operations have been presented as a discontinued operation for 2005 and preceding years and are excluded from the “Others” segment. “Others” for 2005 is comprised of Sri Lanka, Ghana, Indonesia, Vietnam, our non-telecommunications businesses in Hong Kong, the People’s Republic of China and Singapore, and our corporate office. “Others” in 2004 was comprised of Sri Lanka, Ghana, our non-telecommunications businesses in Hong Kong, the People’s Republic of China and Singapore, and our corporate office.

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Results of Operations

The following table presents, for the years indicated, the major line items in our consolidated income statement, including such amounts expressed as a percentage of our total turnover:

	Year ended December 31,					
	2004		2005		2006	
	(HK\$ millions, except percentages)					
Consolidated income statement		%		%		%
Continuing operations:						
Turnover	14,845	100.0	24,356	100.0	33,378	100.0
Operating expenses						
Cost of inventories sold	(1,373)	(9.2)	(2,331)	(9.6)	(2,305)	(6.9)
Staff costs	(1,586)	(10.7)	(2,319)	(9.5)	(2,666)	(8.0)
Depreciation and amortization	(3,117)	(21.0)	(4,367)	(18.0)	(5,076)	(15.2)
Other operating expenses	(8,913)	(60.0)	(13,256)	(54.4)	(18,330)	(54.9)
Operating profit/(loss) before disposal of investments and others	(144)	(0.9)	2,083	8.5	5,001	15.0
Profit on disposal of investments and others, net	1,300	8.8	71	0.3	44	0.1
Operating profit	1,156	7.9	2,154	8.8	5,045	15.1
Interest and other finance costs, net	(1,015)	(6.8)	(1,604)	(6.6)	(2,642)	(7.9)
Share of results of associates	338	2.2	86	0.4	(1)	0.0
Profit before taxation	479	3.3	636	2.6	2,402	7.2
Taxation	(185)	(1.3)	(434)	(1.8)	(826)	(2.5)
Profit for the year from continuing operations	294	2.0	202	0.8	1,576	4.7
Discontinued operations:						
Loss from discontinued operations	(54)	(0.4)	(352)	(1.4)	—	0.0
Profit/(loss) for the year	240	1.6	(150)	(0.6)	1,576	4.7
Attributable to:						
Equity holders of the Company:						
– continuing operations	24	0.2	(416)	(1.7)	201	0.6
– discontinued operations	(54)	(0.4)	(352)	(1.4)	—	0.0
	(30)	(0.2)	(768)	(3.1)	201	0.6
Minority interest – continuing operations	270	1.8	618	2.5	1,375	4.1
	240	1.6	(150)	(0.6)	1,576	4.7

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Year ended December 31, 2006 compared with year ended December 31, 2005

Group results

In April 2005, Partner completed a buy back of its own shares, increasing our interest to over 50%, which resulted in Partner becoming a consolidated subsidiary. Accordingly, our operating profit for 2005 included Partner's contribution for only the last three quarters of 2005, compared with a full year contribution in 2006. The following table sets out the consolidated income statement of Partner's results for (i) the first quarter of 2005 (which were not consolidated in our 2005 accounts), (ii) the last three quarters of 2005, and (iii) the full year of 2005 by combining Partner's results for the first quarter with its results for the last three quarters of 2005.

	Three months ended March 31, 2005 Partner HK\$ millions	Nine months ended December 31, 2005 Partner HK\$ millions	Year ended December 31, 2005 Partner HK\$ millions
Turnover	2,138	6,612	8,750
Cost of inventories sold	(214)	(1,121)	(1,335)
Staff costs	(256)	(778)	(1,034)
Depreciation and amortization	(303)	(1,149)	(1,452)
Other operating expenses	(964)	(2,732)	(3,696)
Operating profit before disposal of investments and others	401	832	1,233
Loss on disposal of investments and others	—	(5)	(5)
Operating profit	401	827	1,228

Turnover

Our turnover increased 37.0% from HK\$24,356 million in 2005 to HK\$33,378 million (US\$4,290 million) in 2006. The key contributor to the underlying growth in turnover was a 74.7% increase in the customer base, which increased to 29.6 million at the end of 2006 from 16.9 million at the end of 2005. The year-on-year growth in turnover reflects the inclusion of Partner's turnover for the full year in 2006, compared with its inclusion for only three quarters in 2005 as we only began to consolidate Partner's results from April 1, 2005. On a like-for-like basis (taking into account Partner's turnover for the first quarter of 2005), turnover in 2006 increased 26.0% compared with 2005.

We again recorded a substantial increase in turnover in India, which contributed 46.3% of our total turnover in 2006. With a full-year contribution from Partner in 2006, turnover from Israel represented 29.3%, while Hong Kong and Macau accounted for 19.8% (of which mobile operations represented 12.6% and fixed-line operations represented 7.2%), Thailand 3.0% and "Others" segment 1.6%.

The majority of turnover came from mobile telecommunications services, which increased slightly as a portion of total turnover, representing 87.7% compared with 86.2% in 2005. The balance came from fixed-line telecommunications services, which represented 7.2% of total turnover in 2006 compared with 9.0% in 2005, sales of mobile telecommunications products such as handsets and accessories, which represented 4.3%, and other non-telecommunications businesses, principally relating to the IT solutions businesses of Vanda IT Solutions, which represented 0.8%. Vanda IT Solutions was disposed of in July 2006 and has ceased to contribute to our turnover.

Operating profit before disposal of investments and others

Our operating profit before disposal of investments and others improved by 140.1% to HK\$5,001 million (US\$643 million) in 2006, compared with HK\$2,083 million in 2005. This year-on-year growth in operating profit before disposal of investments and others reflects the inclusion of Partner's operating profit for the full year in 2006 compared to only three quarters in 2005. On a like-for-like basis (taking into account Partner's operating profit for the first quarter of 2005), operating profit before disposal of investments and others increased by 101.3%. Strong results from operations in India and Israel together with a return to profit at the Hong Kong mobile operations and a further reduction in operating losses in Thailand were the main contributors to this growth.

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Operating expenses

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

	Year ended 31 December		
	2005	2006	Change
	HK\$ millions	HK\$ millions	%
Cost of inventories sold	2,331	2,305	-1.1
Staff costs	2,319	2,666	+15.0
Depreciation and amortisation	4,367	5,076	+16.2
Other operating expenses	13,256	18,330	+38.3
Total operating expenses	<u>22,273</u>	<u>28,377</u>	<u>+27.4</u>

Operating expenses in 2006 increased 27.4% compared to a 37.0% increase in turnover in 2006. The increase in operating expenses was primarily attributable to higher levels of activity in the business. As a percentage of turnover, operating expenses decreased from 91.4% in 2005 to 85.0% in 2006. This year-on-year growth in operating expenses reflects the inclusion of Partner's operating expenses for the full year in 2006 compared with only three quarters in 2005. On a like-for-like basis (taking into account Partner's operating expenses and turnover for the first quarter of 2005), operating expenses increased 18.2% over 2005 against a 26.0% increase in turnover over 2005.

Cost of inventories sold decreased 1.1% from HK\$2,331 million in 2005 to HK\$2,305 million (US\$296 million). On a like-for-like basis (taking into account Partner's cost of inventories sold for the first quarter of 2005), cost of inventories decreased 9.4%. The decline was mainly due to the disposal in July 2006 of Vanda IT Solutions, which has ceased to contribute to our results.

Staff costs increased 15.0% from HK\$2,319 million in 2005 to HK\$2,666 million (US\$343 million) in 2006, mainly due to the expansion of our business and inclusion of Partner's staff costs for the full year in 2006 compared with only three quarters in 2005. On a like-for-like basis (taking into account Partner's staff costs for the first quarter of 2005), staff costs increased well below the rate of increase in turnover at only 3.5% over 2005. As a percentage of total turnover, staff costs decreased from 9.5% in 2005 to 8.0% in 2006. The smaller increase in staff costs was due to actions commenced in 2005 through rationalisation and outsourcing, especially in the our Hong Kong mobile and fixed-line and Thailand operations. We also benefited from improving economies of scale.

Depreciation and amortisation increased 16.2% from HK\$4,367 million in 2005 to HK\$5,076 million (US\$652 million). On a like-for-like basis (taking into account Partner's depreciation and amortisation for the first quarter of 2005), depreciation and amortisation expenses increased 8.7%. The increased depreciation was attributable to the continuing network rollout of our operations, principally in India. The increased amortisation charge resulted mainly from the higher amortisation of customer base resulting from the acquisition of HECL in India and the transmission business of Med-1 in Israel.

The following table presents a breakdown of other operating expenses:

	Year ended 31 December		
	2005	2006	Change
	HK\$ millions	HK\$ millions	%
Cost of services provided	8,673	11,668	+34.5
General administrative and distribution costs	2,087	4,265	+104.4
Operating leases in respect of buildings, hire of plant and machinery	1,187	1,360	+14.6
Impairment loss on fixed assets	—	16	N/A
Write-off of customer acquisition and retention costs	99	26	-73.7
Others	1,210	995	-17.8
Other operating expenses	<u>13,256</u>	<u>18,330</u>	<u>+38.3</u>

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Other operating expenses increased 38.3% from HK\$13,256 million in 2005 to HK\$18,330 million (US\$2,356 million) in 2006. On a like-for-like basis (taking into account Partner's other operating expenses for the first quarter of 2005), other operating expenses increased by 28.9%. The main component of other operating expenses was the cost of services provided, consisting of network costs and associated network operating costs, which increased 34.5% from HK\$8,673 million in 2005 to HK\$11,668 million (US\$1,500 million) in 2006. The increase in the cost of services provided was mainly attributable to continuing growth in the Group's customer base, which resulted in significant increases in interconnection, roaming and IDD charges, as well as the continuing network rollout, which resulted in increased rental fees for cell sites and leased lines.

The increase in other operating expenses was also partly due to a 104.4% increase in general administrative and distribution costs from HK\$2,087 million in 2005 to HK\$4,265 million (US\$548 million) in 2006, as well as a 14.6% increase in operating leases in respect of buildings and the hire of plant and machinery from HK\$1,187 million in 2005 to HK\$1,360 million (US\$175 million) in 2006, reflecting the general expansion in scale of the businesses and the contribution from subsidiaries acquired during the year. These increases in other operating expenses were offset in part by a 17.8% decline in other expenses and a 73.7% decline in write-off of customer acquisition and retention costs.

Other operating expenses represented 54.9% of our total turnover in 2006, which was comparable to the 54.4% that it represented in 2005.

Profit on disposal of investments and others, net

During the year, we recorded a profit on disposal of investments and others of HK\$44 million (US\$5.7 million), comprising the recognition of negative goodwill of HK\$45 million (US\$5.8 million) from the acquisition of the transmission business of Med-1 by Partner in Israel. In 2005, we recorded a profit on disposal of investments and others of HK\$71 million, comprising (i) a profit of approximately HK\$49 million on disposal of an approximate 4% equity interest in Hutchison Essar as a result of the exercising of call options by Essar Teleholdings, a minority shareholder of Hutchison Essar; and (ii) negative goodwill of HK\$27 million resulting from the transfer of a 0.57% equity interest in Hutchison Essar at nil consideration from Essar Teleholdings; and (iii) offset in part by a dilution loss on our shareholding in Partner of approximately HK\$5 million as a result of the exercise of share options by holders of options to purchase Partner's shares.

Operating profit

As a result of the foregoing, we recorded an operating profit of HK\$5,045 million (US\$649 million) in 2006, representing an increase of 134.2% from HK\$2,154 million in 2005. On a like-for-like basis (taking into account Partner's operating profit for the first quarter of 2005), operating profit increased by 97.5% over 2005. The increase was attributable to the strong results from operations in India and Israel, together with a return to operating profit at the Hong Kong's mobile operations and a further reduction in operating losses in Thailand.

Interest and other finance costs, net

Net interest and other finance costs principally consisted of interest and other finance costs relating to our debt, net of interest income received from bank deposits, and changes in fair value of derivative instruments. Net interest and other finance costs increased 64.7% from HK\$1,604 million in 2005 to HK\$2,642 million (US\$340 million) in 2006, primarily due to higher levels of debt incurred in connection with acquisitions in India. The higher interest expense also arose from the higher levels of Thai Baht-denominated debt, where higher levels of debt were compounded by higher effective interest rates and changes in the exchange rate.

Share of results of associates

We recorded a share of losses from associates of HK\$1 million (US\$0.13 million) in 2006, compared with a profit of HK\$86 million in 2005. The change was due to the consolidation for the first time of the results of Partner beginning in April 2005.

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Profit before taxation

We recorded a profit before taxation of HK\$2,402 million (US\$309 million) in 2006, an increase of 277.7% from HK\$636 million in 2005.

Taxation

Our taxation charge of HK\$826 million (US\$106 million) in 2006 was comprised of current taxation charge of HK\$896 million (US\$115 million) and a deferred taxation credit of HK\$70 million (US\$9.0 million). Our current taxation charge increased to HK\$896 million (US\$115 million) compared with HK\$229 million in 2005, which was mainly attributable to increased taxable income from the India operations.

We recorded a net deferred taxation credit from continuing operations of HK\$70 million (US\$9.0 million) in 2006, compared with a net deferred taxation charge of HK\$205 million in 2005. The net deferred taxation charge in 2005 related to each of the India and Hong Kong mobile operations as well as Partner, where we had historical losses. These carry-forward losses were applied to the tax positions as offsets, which led to the credit in 2006.

Profit from continuing operations

Profit from continuing operations increased to HK\$1,576 million in 2006 (US\$203 million), from HK\$202 million in 2005.

Loss from discontinued operations

We did not dispose of any of operations in 2006 that were required to be presented as discontinued operations in accordance with HKFRS 5 "Non-current Assets held for Sale and Discontinued Operations", thus no loss from discontinued operations was recorded. In July 2005, we disposed of our mobile operations in Paraguay. Accordingly, the mobile operations in Paraguay were presented as discontinued operations in accordance with HKFRS 5 and a loss from discontinued operations of HK\$352 million was recorded in 2005.

Profit attributable to equity holders

Profit attributable to equity holders from continuing operations of the Company in 2006 was HK\$201 million (US\$25.8 million), or HK\$0.04 (US\$0.005) earnings per share. In 2005, the loss attributable to equity holders of the Company was HK\$768 million (or HK\$0.17 loss per share), of which HK\$416 million loss (or HK\$0.09 loss per share) was from continuing operations and HK\$352 million loss (or HK\$0.08 loss per share) was from discontinued operations.

Results of our operating companies

Turnover

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

	Year ended 31 December			
	2005		2006	
	HK\$ millions	%	HK\$ millions	%
India ⁽¹⁾	9,996	41.0	15,455	46.3
Israel	6,612	27.1	9,796	29.3
Hong Kong mobile	3,837	15.8	4,199	12.6
Hong Kong fixed-line	2,204	9.0	2,406	7.2
Thailand	1,045	4.3	1,017	3.0
Others	662	2.8	505	1.6
	<u>24,356</u>	<u>100.0</u>	<u>33,378</u>	<u>100.0</u>

(1) Israel was not consolidated in our results until April 2005.

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- **India operations.** The India operations accounted for 46.3% of our total turnover in 2006, compared with 41.0% in 2005. Turnover from the India operations increased 54.6% from HK\$9,996 million in 2005 to HK\$15,455 million (US\$1,987 million) in 2006, primarily due to strong growth in the customer base. The customer base increased to approximately 23.3 million at the end of 2006, 104.2% higher than the customer base of 11.4 million at the end of 2005. The growth was mainly driven by an increase in prepaid customers as thresholds to entry and average tariffs per minute continued to fall. The customer base also benefited from the contribution of 1.5 million customers from HECL which was acquired by Hutchison Essar in January 2006. Over 90% of the growth in the year was in the prepaid segment, which generally has lower average revenue per user than the postpaid segment. This increased reliance on the prepaid segment, plus declining average tariffs per minute, were the principal reasons for the slower growth in turnover relative to the growth in the customer base. At the end of 2006, 85.6% of the customer base in India was in the prepaid segment, up from 77.8% at the end of 2005.
- **Israel operations.** Israel accounted for 29.3% of our total turnover in 2006 compared with 27.1% of total turnover in 2005, having been consolidated as a subsidiary only since April 2005. Turnover from the Israel operations increased by 48.2% from HK\$6,612 million in 2005 to HK\$9,796 million (US\$1,259 million) in 2006. This year-on-year growth reflects the inclusion of Partner's turnover for the full year in 2006 compared to only three quarters in 2005. On a like-for-like basis (taking into account Partner's turnover for the first quarter of 2005), turnover increased by 12.0%. The increase was primarily due to the growth in service revenue resulting from higher minutes of use. As of December 31, 2006, Partner's customer base had risen to 2.7 million, an increase of 5.5% compared with 2005, demonstrating Partner's ability to continue to grow its business in a highly competitive market. Growth in turnover was offset in part by a reduction in Partner's average tariff per minute, which resulted from a government-mandated reduction in interconnection tariffs.
- **Hong Kong mobile operations.** Our mobile operations in Hong Kong accounted for 12.6% of total turnover in 2006, compared with 15.8% in 2005. Despite intense competition, turnover increased 9.4% from HK\$3,837 million in 2005 to HK\$4,199 million (US\$540 million) in 2006. This was mainly driven by growth in 3G customers, who typically have a higher average revenue per user. As of December 31, 2006, the mobile customer base in Hong Kong and Macau had risen to 2.1 million, an increase of 8.5% compared with the same date in 2005. The increased turnover was also partly due to increased roaming revenues. Growth was partially offset by a reduction in turnover from a reduction in the 2G customer base.
- **Hong Kong fixed-line operations.** Our fixed-line operations in Hong Kong accounted for 7.2% of total turnover in 2006, compared with 9.0% in 2005. Turnover increased 9.2% from HK\$2,204 million in 2005 to HK\$2,406 million (US\$309 million) in 2006, reflecting the growth in all services, in particular international and local data services and residential broadband services. Despite keen competition and pricing pressure, turnover growth in international and local data services was achieved through higher customer demand and additional penetration in the carrier, corporate and regional markets. Revenue from residential broadband also saw growth as a result of an increase in the customer base and average revenue per customer. Local voice customers also grew steadily during the year providing a stable revenue stream.
- **Thailand operations.** Our Thailand operations accounted for 3.0% of total turnover in 2006, compared with 4.3% in 2005. Turnover from the Thailand operations decreased slightly from HK\$1,045 million in 2005 to HK\$1,017 million (US\$131 million) in 2006. A sharp increase in promotional offers introduced at the beginning of 2006 contributed to significant tariff reductions in the Thai mobile telecommunications market. Price competition amongst operators continued throughout 2006. The decrease in turnover was also partly due to an increase in the percentage of prepaid customers to 57.3% at the end of 2006 compared with 52.9% at the end of 2005. The prepaid segment generally has lower average revenues per user than the postpaid segment. The number of postpaid customers declined 9.9%, while the number of prepaid customers increased by 7.8%.
- **Other operations.** Turnover from other operations consisted of turnover from Sri Lanka, Ghana and non-telecommunications business. These operations collectively accounted for 1.6% of turnover in 2006, compared with 2.8% in 2005. Turnover in 2006 was HK\$505 million (US\$65 million), a decrease of 23.7% from HK\$662 million in 2005, mainly due to the disposal of Vanda IT Solutions in July 2006.

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Operating profit

The following table presents a breakdown of operating profit before disposal of investments and others by segment; profit on disposal of investments and others, net; and the percentage of total operating profit accounted for by each segment or line item:

	Year ended 31 December			
	2005		2006	
	HK\$ millions	%	HK\$ millions	%
India ⁽¹⁾	2,440	113.3	3,628	71.9
Israel	832	38.6	1,708	33.9
Hong Kong mobile	(420)	(19.5)	247	4.9
Hong Kong fixed-line	78	3.6	259	5.1
Thailand	(544)	(25.3)	(501)	(9.9)
Others	(303)	(14.0)	(340)	(6.8)
Operating profit before disposal of investments and others	2,083	96.7	5,001	99.1
Profit on disposal of investments and others, net	71	3.3	44	0.9
Operating profit	<u>2,154</u>	<u>100.0</u>	<u>5,045</u>	<u>100.0</u>

(1) Israel was not consolidated in our results until April 2005.

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

	Year ended 31 December			
	2005		2006	
	HK\$ millions	%	HK\$ millions	%
India ⁽¹⁾	7,556	33.9	11,827	41.7
Israel	5,780	26.0	8,088	28.5
Hong Kong mobile	4,257	19.1	3,952	13.9
Hong Kong fixed-line	2,126	9.5	2,147	7.6
Thailand	1,589	7.1	1,518	5.3
Others	965	4.4	845	3.0
Operating expenses	<u>22,273</u>	<u>100.0</u>	<u>28,377</u>	<u>100.0</u>

(1) Israel was not consolidated in our results until April 2005.

- India operations.** Operating profit before disposal of investments and others from the India operations increased 48.7% from HK\$2,440 million in 2005 to HK\$3,628 million (US\$466 million) in 2006, representing 71.9% of our total operating profit in 2006. The increase in operating profit reflected continued strong performance from the existing licence areas of Hutchison Essar and improved operating performance in the newer service areas acquired by Hutchison Essar through HECL. Operating expenses for the India business increased 56.5%, which was slightly higher than the growth in turnover of 54.6% reflecting costs associated with the rapid network build-out initiated in 2006 as well as the initial costs of acquisition and integration of HECL, which was acquired in January 2006. Operating expenses in 2006 were also increased by HK\$114 million (US\$14.7 million) arising from an expense recorded in respect of the performance bonus rights plan adopted by Hutchison Essar in September 2006.
- Israel operations.** Operating profit before disposal of investments and others from the operations in Israel was HK\$1,708 million (US\$220 million), representing growth of 105.3% over 2005. This year-on-year growth reflected the inclusion of Partner's contribution for the full year in 2006 compared with only three quarters in 2005. On a like-for-like basis (taking into account Partner's contribution for the first quarter of 2005), Partner's operating profit before disposal of investments and others in 2006 increased 38.5% compared with 2005, which exceeded the 12.0% increase in its turnover. This higher operating profit reflected strong operating performance as well as growth in the number of 3G contract customers, as well as lower government royalty expenses and the implementation of efficiency measures. In addition, Partner recorded a profit on disposal of investments and others of HK\$44 million (US\$5.7 million) in 2006, including negative goodwill of HK\$45 million (US\$5.8 million) arising from the acquisition of the transmission business of Med-1.

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- **Hong Kong mobile operations.** Our mobile operations in Hong Kong recorded an operating profit of HK\$247 million (US\$31.7 million) in 2006, a turnaround from an operating loss of HK\$420 million in 2005. The improvement was mainly due to revenue growth and an improved operating cost structure of the business resulting from a number of cost saving initiatives started in 2005, including staff cost savings from the outsourcing of network maintenance, information technology and call centre operations. Despite growth in turnover and customers, operating expenses in 2006 dropped 7.2% compared with 2005.
- **Hong Kong fixed–line operations.** Our fixed–line operations in Hong Kong recorded an operating profit of HK\$259 million (US\$33.3 million) in 2006, an increase of 232.1% from HK\$78 million in 2005. This improvement was due mainly to relative growth in data services and broadband services and an improved operating cost structure for the business resulting from a number of cost saving initiatives launched in 2005 including outsourcing. Operating expenses in 2006 were HK\$2,147 million (US\$276 million), which was essentially unchanged compared with HK\$2,126 million in 2005, despite the business expansion and increased turnover.
- **Thailand operations.** Operating loss from the Thailand operations decreased 7.9% from HK\$544 million in 2005 to HK\$501 million (US\$64.4 million) in 2006, reflecting success in improving the operating cost structure of the business resulting from initiatives launched in 2005 including outsourcing. Operating expenses fell 4.5% to HK\$1,518 million (US\$195 million) reflecting the improved operating cost structure of the business. During the second half of 2006 the Thailand operations increased their provisions against inventory and bad debt.
- **Other operations.** Operating losses from other operations increased to HK\$340 million (US\$43.7 million) in 2006 from HK\$303 million in 2005. The losses were mainly attributable to the inclusion of the operating expenses incurred by the start–up operations in Vietnam and Indonesia, operating losses from Ghana and expenses of our corporate office.

Our Vietnam and Indonesia operations did not generate any revenues in 2006 as they were still in the process of being rolled out. In January 2007, we announced the launch of HT Mobile, the nationwide mobile communications service operator in Vietnam, and in March 2007 we announced the commercial launch of services in Indonesia.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Group results

In the first three months in 2005, we accounted for Partner as an associated company. In April 2005, Partner completed a buy back of its own shares increasing our interest to over 50%, which resulted in Partner becoming a consolidated subsidiary. Partner's contribution to operating profit was HK\$88 million for the first three months of 2005 as an associated company. See “—Year Ended December 31, 2006 Compared to Year Ended December 31, 2005—Group Results” for a table setting out the consolidated income statement of Partner's results for (i) the first quarter of 2005 (which were not consolidated in our 2005 accounts), (ii) the last three quarters of 2005, and (iii) the full year of 2005 by combining Partner's results for the first quarter with its results for the last three quarters of 2005.

Turnover

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

The consolidation of Partner for the first time in 2005 resulted in Israel contributing 27.1% to our turnover, while turnover from India represented 41.0%, Hong Kong and Macau 24.8% (of which mobile operations represented 15.8% and fixed–line operations represented 9.0%), Thailand 4.3% and other operations 2.8%. In 2004, when we did not consolidate Partner's turnover, turnover from India represented 47.8% of our total turnover, Hong Kong and Macau 37.6% (of which mobile operations represented 25.0% and fixed–line operations represented 12.6%), Thailand 8.2% and other operations 6.4%.

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

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Operating profit before disposal of investments and others

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

Operating expenses

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

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

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

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

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

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

The following table presents a breakdown of other operating expenses:

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

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

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

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

Share of results of associated companies

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

Profit on disposal of investments and others

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

Operating profit

As a result of the foregoing, we recorded an operating profit of HK\$2,240 million in 2005 as compared to HK\$1,494 million in 2004. Excluding the consolidation of Partner, our operating profit in 2005 was HK\$1,413 million, representing an increase of HK\$1,219 million, if the one-time gain of HK\$1,300 million from the placement of Hutchison Global Communications Holdings shares is excluded from our operating profit in 2004.

Interest and other finance costs, net

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

Profit before taxation

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

Current and deferred taxation charges

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

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

Profit from continuing operations

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

Loss from discontinued operations

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

Loss attributable to equity holders

Loss attributable to equity holders of the company in 2005 was HK\$768 million, of which HK\$416 million (or HK\$0.09 loss per share) was from continuing operations, and HK\$352 million (or HK\$0.08 loss per share) was from discontinued operations. In 2004, the loss attributable to equity holders of the company was HK\$30 million, of which HK\$24 million profit (or HK\$0.01 earnings per share) was from continuing operations, and HK\$54 million loss (or HK\$0.01 loss per share) was from discontinued operations. Excluding the profit on disposal of investments and others, and without taking into account any possible tax-related effects from this exclusion, the loss from continuing operations in 2005 was HK\$487 million compared to HK\$1,276 million in 2004, a decrease of 61.8%.

Results of our operating companies

Turnover

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

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

(1) Israel was not consolidated in our results until April 2005.

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

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- **Israel operations.** Israel accounted for 27.1% of our total turnover in 2005 having been consolidated as a subsidiary since April 2005. Had Partner been consolidated for the full year it would have contributed HK\$8,750 million or 33.0% of total proforma turnover in 2005. As of December 31, 2005, Partner's customer base had risen to 2.5 million, an increase of 8.1% as compared to 2004, demonstrating Partner's ability to continue to grow its business in a highly competitive market.
- **Hong Kong mobile operations.** Our Hong Kong mobile operations accounted for 15.8% of our total turnover in 2005, compared to 25.0% in 2004. Excluding Partner from our total turnover, our Hong Kong mobile operations would have represented 21.6% of total turnover. Despite intense competition, turnover increased by 3.3% from HK\$3,714 million in 2004 to HK\$3,837 million in 2005, which was mainly driven by growth in our higher 3G customer base with higher average revenue per user, which was partially offset by a reduction in our 2G customer base. As of December 31, 2005, the mobile customer base in Hong Kong and Macau had risen to 2.0 million, an increase of 5.9% as compared to 2004. The increased turnover was also partly due to increased roaming revenues, demonstrating the ability of Hong Kong mobile to continue to grow the business in a highly competitive market.
- **Hong Kong fixed-line operations.** Our Hong Kong fixed-line operations accounted for 9.0% of our total turnover in 2005, compared to 12.6% in 2004. Excluding Partner from our total turnover, our Hong Kong fixed-line operations would have represented 12.4% of total turnover. Turnover from our Hong Kong fixed-line operations increased by 17.9% from HK\$1,870 million in 2004 to HK\$2,204 million in 2005 which was mainly driven by growth in international and local voice services, international and local data services, as well as residential broadband services. International voice revenues experienced a strong growth over the previous year, mainly driven by demand in both the wholesale and retail sectors, and partly driven by the launch of the IDD 0088 program during the year. Despite keen competition and price pressures in the market, the turnover growth in international and local data services was achieved through additional penetration among the carrier, corporate and regional markets. Local voice and residential broadband customers also grew steadily during the year providing a stable source of revenue stream.
- **Thailand operations.** Our Thailand operations accounted for 4.3% of our total turnover in 2005, compared to 8.2% in 2004. Excluding Partner from our total turnover, our Thailand operation would have represented 5.9% of our total turnover. Turnover from our Thailand operations decreased by 14.3% from HK\$1,219 million in 2004 to HK\$1,045 million in 2005. This largely reflected a change in the customer mix as the business changed direction to focus on the prepaid market segment in 2005, which generally has a lower average revenue per user than the postpaid segment. While the year-end customer base increased by 19.0% to approximately 732,000, the prepaid base increased from 41.1% to 52.9% of the total customer base.
- **Other operations.** Turnover from other operations consisted of turnover from Sri Lanka, Ghana and our non-telecommunications business. These operations collectively accounted for 2.8% of our turnover in 2005, compared to 6.4% in 2004. Total turnover decreased by 30.2% from HK\$949 million in 2004 to HK\$662 million in 2005 reflecting the change in the presentation of revenue in Vanda IT Solutions from gross to net basis.

Operating profit

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

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

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

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

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

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

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

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

- Hong Kong mobile operations.** Our Hong Kong mobile operations recorded an operating loss before disposal of investments and others of HK\$420 million in 2005, a 19.8% reduction from an operating loss of HK\$524 million in 2004. The improvement was mainly due to staff cost savings from the outsourcing of certain network and information technology and call center services, partially offsetting higher amortization expenses from the continued growth of our 3G customer base which led to higher customer acquisition and retention costs.
- Hong Kong fixed-line operations.** Our Hong Kong fixed-line operations recorded an operating profit of HK\$78 million in 2005, a decrease of 59.8% from HK\$194 million (excluding the one-off gain of HK\$1,300 million) in 2004. The operating profit margin was 3.5% in 2005 compared to 10.4% in 2004. The decline in the operating profit and margin was the result of a change in the business mix as we recorded relative growth in the lower margin IDD business together with an increase in operating expenses including various one off expenses incurred in respect of the privatization of Hutchison Global Communications Holdings during the year. Our operating expenses increased by 26.8% from HK\$1,676 million in 2004 to HK\$2,126 million in 2005. This increase in operating expenses was mainly attributable to the business expansion and generally consistent with increased turnover, which grew at a rate of 17.9% over 2004.
- Thailand operations.** Operating loss from our Thailand operations decreased by 49.6% from HK\$1,079 million in 2004 to HK\$544 million in 2005, mainly attributable to a number of initiatives launched in 2005 including restructuring the organization and outsourcing of network maintenance and IT operations. Operating expenses fell by 30.9% to HK\$1,589 million reflecting the improved operating cost structure of the business and lower amortization as our Thailand operations moved to expense customer acquisition costs in 2005.
- Other operations.** Operating loss before disposal of investments and others from our other operations increased to HK\$303 million in 2005 from HK\$79 million in 2004. The loss was mainly due to the increase in operating expenses in Ghana and a full year of corporate office expenses. Our Vietnam and Indonesia operations did not generate any revenues in 2005 as they were still in the process of being rolled out.

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Liquidity and Capital Resources

Requirements

Our liquidity and capital requirements relate principally to the following:

- capital expenditures for the continuing build-out and expansion of networks in the markets where we operate, including purchases of fixed assets and licenses and acquisitions of interests in existing third-party telecommunications companies as well as companies engaged in complementary or related businesses;
- costs and expenses relating to the operation of the businesses, including ongoing costs related to network operations, sales and distribution expenses and customer service; and
- payments of the principal and interest on debt.

As of December 31, 2006, we had net current liabilities of HK\$17,268 million (US\$2,220 million). Although our operations generated cash during the year, investments in the businesses consumed cash in excess of amounts generated from operations. The consequent financing requirements were met by bank and other loans, including a HK\$9 billion credit facility that we entered into in November 2005, which is described in greater detail below in “—Outstanding debt”. We have historically met our working capital and other capital requirements principally from cash flow from operating activities and through borrowings from banks. We expect that we will continue to fund the capital required to build, maintain and operate telecommunications networks through a combination of cash flow from operating activities and bank borrowings, although we expect that following the completion of our sale of CGP Investment Holdings to Vodafone, we will be able to repay up to HK\$13,900 million (US\$1,787 million) of outstanding debt and fund other requirements from the cash proceeds of the sale, even after the payment of a special dividend.

Capital expenditure

The following table sets forth our capital expenditure by segment for the years indicated:

	Capital expenditure on fixed assets			Capital expenditure on other intangible assets		
	Year ended December 31,			Year ended December 31,		
	2004	2005	2006	2004	2005	2006
	HK\$ millions			HK\$ millions		
India ⁽¹⁾	2,463	2,744	7,016	128	—	9
Israel	—	531	848	—	—	1
Hong Kong mobile	557	415	284	433	477	453
Hong Kong fixed-line	704	425	466	—	98	32
Thailand	876	282	112	299	75	—
Others	58	321	393	117	—	1,341
Total capital expenditure	<u>4,658</u>	<u>4,718</u>	<u>9,119</u>	<u>977</u>	<u>650</u>	<u>1,836</u>

(1) Israel was not consolidated in our results until April 2005.

Capital expenditure on fixed assets

In 2006, capital expenditure on fixed assets increased from HK\$4,718 million in 2005 to HK\$9,119 million (US\$1,172 million) in 2006, representing an increase of 93.3%. The increase in capital expenditure on fixed assets was mainly in the India and Israel operations and expansion in the new markets of Indonesia and Vietnam. These increases were offset in part by decreases in capital expenditure on fixed assets in the Hong Kong mobile operations and the Thailand operations. The capital expenditure on fixed assets in India increased as Hutchison Essar continued to invest to broaden its operations in existing and new licence areas. Capital expenditure in Israel increased in part in connection with the continued build-out of Partner's 3G network. The decrease in capital expenditure on fixed assets in Hong Kong mobile operations mainly reflected the completion of the initial investment in building the basic infrastructure of a territory-wide 3G network. The decrease in capital expenditure on fixed assets in Thailand was mainly due to the completion of the principal network build-out and the implementation of cost saving programs. The initial investments in Indonesia and Vietnam are included under “Others” and reflect initial rollout costs.

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In 2005, capital expenditure on fixed assets increased from HK\$4,658 million in 2004 to HK\$4,718 million, representing an increase of 1.3%. The increase was mainly due to the first time inclusion of Israel following the consolidation of Partner in April 2005, increase in capital expenditure on fixed assets of the India operations and expansion in our new markets in Indonesia and Vietnam. Excluding Israel, capital expenditure on fixed assets would have been HK\$4,187 million in 2005. These increases were offset by decreases in capital expenditure on fixed assets in our Hong Kong mobile and fixed-line operations and our Thailand operations. The capital expenditure on fixed assets of India increased as we continued to invest to broaden our operations in our existing licence areas. The decrease in capital expenditure on fixed assets of the Hong Kong mobile operations mainly reflected the completion of the initial investment in building the basic infrastructure of a territory-wide 3G network. The decrease in capital expenditure on fixed assets in the Hong Kong fixed-line operations was due to the completion of its major infrastructure build out and lower prices. The decrease in capital expenditure on fixed assets of our Thailand operations was mainly due to the completion of the principal network build out and the implementation of cost saving programs. The initial investments in Indonesia and Vietnam are included under "Others" and reflect initial roll out costs.

Capital expenditure on other intangible assets

Capital expenditure on other intangible assets was comprised mainly of telecommunications licences, customer acquisition and retention costs, brand name and customer base.

In 2006, capital expenditure on other intangible assets increased by 182.5% from HK\$650 million in 2005 to HK\$1,836 million (US\$236 million). The increase was due mainly to the capitalisation of telecommunications licences of HK\$1,341 million (US\$172 million) in Indonesia, with the corresponding amount recorded as licence fee liabilities (representing mainly the discounted value of the fixed annual fees to be paid over the licence period). The increase was offset in part by a decrease in customer acquisition and retention costs from HK\$650 million to HK\$485 million (US\$62.3 million).

In 2005, capital expenditure on other intangible assets decreased by 33.5% from HK\$977 million in 2004 to HK\$650 million. The decrease was mainly due to the capitalization of telecommunications licences of HK\$245 million in India and Ghana in 2004 while there was no such capitalization of telecommunications licences in 2005. The capital expenditures on other intangibles in 2005 of HK\$650 million represented the additional customer acquisition and retention costs incurred during 2005, and the decrease compared to 2004 was mainly due to the much lower customer acquisition and retention costs incurred in Thailand.

2007 will be a year when we continue to invest in Indonesia and Vietnam to establish or further strengthen our position in these markets. We expect our principal capital expenditure requirements for 2007 to be approximately HK\$6,000 million (US\$771 million) to HK\$7,000 million (US\$900 million) (excluding India) comprised principally of the following:

- approximately HK\$3,000 million (US\$386 million) to HK\$4,000 million (US\$514 million) in Indonesia for network buildout;
- approximately HK\$1,000 million (US\$129 million) in Vietnam for network buildout; and
- the remainder in Hong Kong and Israel on their 3G networks and maintenance expenditures.

Outstanding debt

Historically, we have financed our network build-out and operating costs principally from cash flow from our operating activities and through loans from commercial banks. As of December 31, 2005 and 2006, the ratio of our total debts to total assets was approximately 45% and 49%, respectively.

During 2006, our borrowings increased as the result of additional debt incurred primarily in connection with acquisitions in India. We incurred approximately HK\$6,000 million (US\$771 million) in debt to fund the acquisition of our interest in Omega Telecom, the reorganisation of our holding company interests and the final payments in respect of HECL and Spacetel. In addition, we assumed approximately HK\$3,200 million (US\$411 million) of debt with the acquisition of HECL.

Following the completion of our sale of CGP Investments Holdings to Vodafone, approximately HK\$15,300 million (US\$1,967 million) of our debt was assumed by Vodafone. We also announced our intention to reduce other debt by up to HK\$13,900 million (US\$1,787 million) following completion of the sale of CGP Investments Holdings. In May 2007, the outstanding balance under our HK\$9 billion secured revolving loan facility was fully repaid out of the proceeds from the sale of CGP Investments Holdings. Following the repayment, the facility was fully canceled and terminated on May 30, 2007.

As of December 31, 2005, 28.8% of our total borrowings, or HK\$7,690 million, was repayable within one year, compared with 40.7%, or HK\$16,048 million (US\$2,063 million), as of December 31, 2006.

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

- (1) On May 8, 2007, we completed the sale to Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries. Accordingly, all debt of CGP Investments Holdings, including debt of the India operation, has been effectively assumed by Vodafone.
- (2) In May 2007, the outstanding balance under our HK\$9 billion secured revolving loan facility was fully repaid out of the proceeds from the sale of CGP Investments Holdings. Following the repayment, the facility was fully canceled and terminated on May 30, 2007.

As at December 31, 2006, total borrowings of HK\$8,042 million (US\$1,034 million) (compared with HK\$7,488 million as at December 31, 2005) were guaranteed by members of the Hutchison Whampoa group and other related companies in respect of loans to our Thailand operation only. Under the terms of a credit support agreement between us and Hutchison Whampoa, we will pay a guarantee fee charged at normal commercial rates and will provide a counter-indemnity in favour of the Hutchison Whampoa group in respect of guarantees, indemnities and security provided by members of the Hutchison Whampoa group for so long as there remains a guarantee liability. The total amount of fees paid by us to the Hutchison Whampoa group in 2006 in respect of these borrowings was HK\$78 million (US\$10.0 million).

As at December 31, 2006, fixed assets and current assets of certain subsidiaries with a carrying value of HK\$27,603 million (US\$3,548 million) (compared with HK\$11,520 million as at December 31, 2005) and HK\$30,077 million (US\$3,866 million) (compared with HK\$6,756 million as at December 31, 2005), respectively were used as collateral for certain of the borrowings. The current portion of our borrowings is secured to the extent of HK\$6,594 million (US\$848 million) (compared with HK\$868 million as at December 31, 2005). The non-current portion of our borrowings is secured to the extent of HK\$18,249 million (US\$2,346 million) (compared with HK\$16,748 million as at December 31, 2005).

In December 2006, our Thailand operations extended the maturity date of six outstanding commercial loan facilities with international lenders, totaling JPY117,530 million and THB5,000 million (together approximately US\$1,130 million), by one year. All of the Japanese Yen loan drawings and repayments were converted to Thai Baht payments through cross currency swaps and forward foreign currency contracts.

Capital resources

We historically have met working capital and other capital requirements principally from cash flow from operating activities and through borrowings from banks. We expect that the cash proceeds received from our sale of CGP Investments Holdings to Vodafone will allow us to rely less on bank borrowings in the near future. Bank loans and other debt, and related collateral arrangements and financial and operating covenants, are discussed above in “—Outstanding Debt.”

As of December 31, 2006, we had net current liabilities of HK\$17,268 million (US\$2,220 million) comprising a current portion of bank loans and other loans equal to HK\$16,048 million (US\$2,063 million) and other net current liabilities of HK\$1,220 million (US\$157 million). As of December 31, 2005, we had net current liabilities of HK\$5,328 million, comprising a current portion of bank loans and other loans equal to HK\$7,690 million and other net current assets of HK\$2,362 million. The increase in net current liabilities in 2006 was primarily attributable to an increase in current borrowings of HK\$8,358 million (US\$1,074 million), incurred primarily in connection with acquisitions in India.

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The following table sets out our major inflows/(outflows) of cash flows:

	<u>2004</u> HK\$ millions	<u>2005</u> HK\$ millions	<u>2006</u> HK\$ millions
Cash flows from operating activities			
Profit before taxation	479	636	2,402
Adjustments for:			
– Interest and other finance costs, net	1,015	1,604	2,642
– Non-cash items	3,417	4,582	5,249
– Profit on disposal of investments and others, net	(1,300)	(71)	(44)
– Share of results of associates	(338)	(86)	1
– Changes in working capital	(58)	524	(1,721)
Cash generated from continuing operations	<u>3,215</u>	<u>7,189</u>	<u>8,529</u>
Cash generated from discontinued operations	(21)	—	—
Cash generated from operations	<u>3,194</u>	<u>7,189</u>	<u>8,529</u>
Net interest and other finance costs and taxes paid	(950)	(1,912)	(3,015)
Net cash generated from operating activities	<u><u>2,244</u></u>	<u><u>5,277</u></u>	<u><u>5,514</u></u>
Cash flows from investing activities			
Net purchases of fixed assets	(5,104)	(4,030)	(7,747)
Additions to customer acquisition and retention costs, additions to prepaid capacity and maintenance, advance payments for network roll-out, non-current loan to a related company, and increase in long-term deposits	(963)	(987)	(973)
Upfront and fixed periodic payments for telecommunications licences	—	—	(236)
Prepayments for acquisition of subsidiaries	—	(4,011)	(788)
Purchases of subsidiaries and additional investment in certain subsidiaries	69	(1,403)	(5,218)
Purchase of transmission business	—	—	(124)
Proceeds on disposal of interest in subsidiaries	<u>1,578</u>	<u>669</u>	<u>2</u>
Net cash used in investing activities	<u><u>(4,420)</u></u>	<u><u>(9,762)</u></u>	<u><u>(15,084)</u></u>
Cash flows from financing activities			
Net cash flows from financing activities and changes in restricted cash	3,798	4,577	8,074
Increase in amounts due from related companies	(1,513)	—	—
Proceeds from exercise of share options	—	—	194
Net cash flows from minority shareholders	—	242	914
Net cash provided by financing activities	<u><u>2,285</u></u>	<u><u>4,819</u></u>	<u><u>9,182</u></u>

Year ended December 31, 2006 compared with year ended December 31, 2005

Our net cash inflow from operating activities in 2006 was HK\$5,514 million (US\$708 million), an increase of HK\$237 million (US\$30.5 million) compared with HK\$5,277 million in 2005. The increase was mainly attributable to the significant increase in profit before tax to HK\$2,402 million (US\$309 million), resulting from increased operating profit contributions from India and Israel, reflecting the general growth of those businesses and increased operating profit for the mobile operations in Hong Kong, which was partially offset by the start-up losses in Vietnam and Indonesia. The increase in net cash inflow from operating activities was also due to the increased non-cash items of HK\$5,249 million (US\$675 million), comprised mainly of depreciation and amortisation, reflecting higher levels of investments, and the amortisation of telecommunications licences and other intangibles assets arising from the step-up acquisition of Partner in April 2005. This increase was partially offset by the working capital outflows of HK\$1,721 million (US\$221 million) in 2006 compared with working capital inflow of HK\$524 million in 2005, which was mainly due to the outflow relating to an increase in trade receivables, other receivables and prepayments of HK\$2,029 million (US\$261 million), reflecting the general expansion of the business, as well as the acquisition of HECL in January 2006.

Our net cash outflow from investing activities amounted to HK\$15,084 million (US\$1,939 million) in 2006, compared with HK\$9,762 million in 2005. The net cash outflow from investing activities consisted mainly of net capital expenditures on fixed assets (mainly network rollout) of HK\$7,781 million (US\$1,000 million) and HK\$5,259 million (US\$676 million) of acquisition costs. In 2005, the net cash outflow comprised mainly capital expenditures on fixed assets (mainly network rollout) of HK\$4,046 million and HK\$4,011 million of advance payments made in connection with the acquisition of HECL and BPL Mumbai (which had not been completed as of the date of our sale of CGP Investments Holdings to Vodafone) in India.

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Our net cash inflow from financing activities amounted to HK\$9,182 million (US\$1,180 million) in 2006, compared with HK\$4,819 million in 2005. The increase mainly reflected a net increase in loans in the amount of HK\$8,073 million (US\$1,037 million) in 2006 as compared with HK\$4,571 million in 2005, primarily to fund network build-out and operations by operating companies as well as the first time inclusion of the debt from HECL as a result of the consolidation of HECL in January 2006. The increase in net cash inflow from financing was also partly due to net cash inflows from minority shareholders of HK\$914 million (US\$118 million), which primarily reflected additional capital contributions from minority shareholders of Hutchison Essar, which were offset in part by quarterly dividend payments to the minority shareholders of Partner.

Year ended December 31, 2005 compared with year ended December 31, 2004

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

Our trade receivables increased from HK\$1,719 million as of December 31, 2004 to HK\$3,265 million as of December 31, 2005. The increase was primarily due to increase in turnover resulting from growth in our customer base. The ratio of trade receivables outstanding over 90 days decreased from 15.2% as of December 31, 2004 to 9.6% as of December 31, 2005.

Our trade payables increased from HK\$1,192 million as of December 31, 2004 to HK\$2,206 million as of December 31, 2005. The increase was mainly due to increased operations in most of our service areas and longer payment terms. The decrease in the amount of trade payables outstanding over 90 days, from HK\$474 million as of December 31, 2004 to HK\$400 million as of December 31, 2005 despite the increased operations in 2005, mainly as the result of shorter payments terms in the Indian operations.

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

Our net cash inflows from financing activities amounted to HK\$4,819 million in 2005, compared to HK\$2,285 million in 2004. The increase mainly reflected a net increase in loans in the amount of HK\$4,571 million in 2005 as compared to HK\$4,048 million in 2004, primarily to fund network build out and operations by our operating companies as well as the first time inclusion of the debt from Partner as a result of our consolidation of Partner since April 2005. In 2004 there was an increase in amounts due from related companies of HK\$1,513 million, whereas there was none in 2005.

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Contractual obligations

The following table sets forth selected information regarding our contractual obligations to make future payments as of December 31, 2006:

HK\$ millions	Total	Payments due within		
		1 year	1 – 5 years	After 5 years
Purchase obligations	18,487	18,190	230	67
Operating lease obligations	4,306	924	1,726	1,656
Borrowings ⁽¹⁾	39,417	16,048	23,056	313
Interest on borrowings	3,515	2,032	1,476	7
Licence fees liabilities	2,808	259	1,446	1,103
Total contractual obligations	<u>68,533</u>	<u>37,453</u>	<u>27,934</u>	<u>3,146</u>

(1) Interest on borrowings comprised the amount of interest to be accrued at interest rates of between 1.1% to 10.4%.

Off-balance sheet arrangements

In addition to the contractual obligations discussed above, we had commitments that could require material payments in the future. These commitments are not included in the consolidated balance sheet.

As of December 31, 2006, we had contingent liabilities in respect of performance guarantees of HK\$319 million (US\$41.0 million). The performance guarantees principally related to guarantees that had been given prior to the disposal of Vanda IT Solutions in July 2006 in favour of counterparties of Vanda IT Solutions and its affiliates under various financing and equipment purchase transactions entered into by them. We are not aware of any circumstance that would require us to perform under these guarantees, which have been counter-indemnified by the purchaser of Vanda IT Solutions, which is a member of the Hutchison Whampoa group.

As of December 31, 2006, we also had contingent liabilities in respect of certain claims against subsidiaries in Israel and India which were pending in the amount of HK\$1,014 million (US\$130 million) and HK\$251 million (US\$32.3 million), respectively. On March 15, 2007, the claims against us in Israel were dismissed.

In October 2001, our subsidiary in Hong Kong was issued a 3G 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 are payable amounting to 5% of network turnover 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 in our accounts as licence fees liabilities. Under the terms of the licence, the actual amount due could be greater than the amount recorded.

Our subsidiary in Israel, Partner, is committed to pay royalties to the Government of Israel equal to 3.5% of its “income from cellular services” as defined in the Israeli 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. The rate of royalty payments paid by cellular operators has been reduced annually by 0.5%, since January 1, 2006 and will continue to be reduced until it reaches a level of 1%.

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

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We hold an option to acquire Hutchison Whampoa's mobile telecommunications related interests in Hutchison Telecommunications Argentina S.A.

Prior to our sale of CGP Investments Holdings to Vodafone on May 8, 2007, we held call options, both directly and indirectly, which, if exercised, would have entitled us to additional equity interests in the non-wholly owned investment holding companies in India through which we holds indirect interests in Hutchison Essar, in each case subject to applicable regulatory approvals. Conversely, some Indian shareholders held put options that could, again subject to applicable regulatory approvals, require us to purchase additional equity interests in those investment holding companies. Some of the call and put options were exercisable at fair market value of the investment holding companies, as 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 were exercisable at a price determined in accordance with a formula specified in the relevant options agreement. As these interests were held under CGP Investments Holdings and therefore effectively transferred to Vodafone when we sold CGP Investments Holdings to Vodafone, we are no longer subject to these put and call options.

Factors Affecting Our Results of Operations

Disposal of CGP Investments Holdings

On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries, for cash consideration of approximately US\$11,080 million before costs, expenses and interest payable by Vodafone. On May 8, 2007, we also entered into a supplemental deed with Vodafone pursuant to which Vodafone, in consideration for waiving certain potential claims against us under the sale and purchase agreement, was permitted to retain US\$352 million from the sale price to apply against certain specified liabilities which Vodafone might incur in connection with the interests that it had effectively acquired during a period of up to ten years following the date of completion of the sale. Having regard to the terms surrounding the retention and release of the amount retained by Vodafone, our board of directors has considered it prudent to make a full provision against recovery of any part of the amount retained by Vodafone.

In connection with the sale of CGP Investments Holdings, in March 2007 we entered into a conditional settlement agreement with Essar Teleholdings and certain of its affiliates pursuant to which they agreed to, among other things: (i) refrain from doing anything that would prevent, delay or inhibit completion of the sale; (ii) use all reasonable endeavours to ensure that completion of the sale is achieved as soon as practically possible; (iii) waive any rights they have or claim to have in respect of certain matters including those related to the sale; and (iv) terminate certain agreements, alleged agreements and understandings relating to the relationship connected to Hutchison Essar. In consideration, upon completion of the sale, we agreed to make scheduled payments to an affiliate of Essar Teleholdings aggregating US\$415 million before interest, of which US\$373.5 million has now been paid.

As a result of the sale, we expect to realize an estimated pre-tax gain of approximately US\$9,000 million after taking into account the US\$415 million settlement amount payable to Essar Teleholdings, the US\$352 million amount retained by Vodafone, interest on the consideration paid to us by Vodafone, transaction costs and expenses. We also realized a net cash inflow of approximately US\$10,830 million before payment of the settlement amount to Essar Teleholdings.

During 2006, the Indian business represented 46% of our total turnover, 72% of our total operating profit and 42% of our total operating expenses. In addition, as of December 31, 2006, the Indian business held 40% of our total outstanding debt, all of which was effectively assumed by Vodafone upon completion of the sale. Following the completion of the sale of CGP Investments Holdings to Vodafone, the results of the India operations for 2007 and prior years will be presented in our consolidated income statement as discontinued operations.

On May 22, 2007, our board of directors declared a special dividend to shareholders equal to HK\$6.75 (US\$0.87) per share, or approximately HK\$32,230 million (US\$4,143 million) in aggregate, from the proceeds of the sale of CGP Investments Holdings. The dividend will be paid on June 29, 2007. In addition, with the proceeds from the sale we expect to repay up to HK\$13,900 million (US\$1,787 million) of outstanding debt which, combined with the debt being assumed by Vodafone, should result in significantly reduced interest expense during the remainder of 2007 and generation of net interest income. In May 2007, the outstanding balance under our HK\$9 billion secured revolving loan facility was fully repaid out of the proceeds from the sale of CGP Investments Holdings. Following the repayment, the facility was fully canceled and terminated on May 30, 2007. We have also stated that we will announce a dividend policy in the third quarter of 2007. We believe the remaining cash from the sale of CGP Investments Holdings to Vodafone will leave us very well capitalised to take advantage of investment opportunities as they arise.

New licences and acquisitions

In recent years, we have expanded our operations through the acquisition of new telecommunications licenses, as well as through the acquisition of interests in existing third-party telecommunications operators. For example in January 2006 we completed the acquisition of HECL in India.

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The start-up of newly licensed operations and the acquisition and subsequent integration of newly acquired third-party telecommunications operators generally entail significant capital and operating expenditures, including licence fees, cash consideration paid or debt incurred in connection with the acquisition, purchase of new equipment, build-out and maintenance of networks, marketing of new products and services and the addition of employees. If successful, new operations and acquisitions may also lead to significant customer and revenue growth. Accordingly, new operations and acquisitions affect the comparability of the results of our operations for different years.

Vietnam is a new service area for which we received governmental approval in February 2005 of the BCC with Hanoi Telecommunications to jointly build and operate a network. We recognise our interest in the BCC to the extent of the assets that we control and the liabilities and expenses that we incur, and the share of the income that we earn from the sale of goods or services under the terms of the BCC. We launched services in Vietnam in January 2007.

In July 2005, we completed the acquisition of a 60% equity interest in PT Hutchison CP. Towards the end of 2005, we commenced the expansion of PT Hutchison CP's nationwide wireless network, and we launched commercially at the end of March 2007. We and PT Hutchison CP's other shareholders have agreed to provide funding to PT Hutchison CP pro rata to our respective equity interests with an initial committed amount of US\$300 million.

We were issued a 3G license for Macau with effect from June 5, 2007. We are required under the terms of the license to commercially launch 3G service within 12 months from the date of the license and achieve territory-wide coverage in Macau within 15 months from the date of commercial launch.

Regulatory changes

In Israel, regulatory changes significantly reducing call and SMS termination tariffs became effective on March 1, 2005. Call termination tariffs have been reduced from NIS0.45 per minute prior to March 1, 2005 to NIS0.29 per minute on March 1, 2006 and to NIS 0.26 per minute on March 1, 2007, with an additional reduction to NIS0.22 per minute mandated to be effective March 1, 2008. SMS termination tariffs were reduced from NIS0.285 to NIS0.05 on March 1, 2005 and to NIS0.22 per minute on March 1, 2006. These tariff reductions caused call revenue to increase less rapidly than the rate of increase of total network minutes.

In March 2005, the Telecommunications Law in Israel was amended to require the Minister of Communications of Israel to implement a mobile number portability plan and, separately, a fixed number portability plan by September 2006. The number portability plan would permit customers in Israel to change their service provider to another network operator while retaining the same telephone number. Despite efforts to introduce the requisite technology and to coordinate the transition to number portability by September 2006, at present none of the cellular or fixed-line operators in Israel, including Partner, has implemented number portability. Partner and two other mobile telecommunications operators in Israel have filed a petition with the Israeli High Court of Justice seeking to postpone the number portability implementation deadline. In May 2007 the Ministry of Communications announced that the latest implementation date for number portability would be December 1, 2007. It was nonetheless considering imposing monetary sanctions on relevant telecommunication license holders, including Partner, in accordance with the Telecommunications Law for alleged violation of the obligation to implement number portability by September 2006. Once implemented, we anticipate that number portability will provide network operators with the opportunity to transfer other operators' customers to their network, which will likely increase churn rates and may increase customer acquisition and retention costs.

In November 2006, Partner's license was amended in a manner that obligates it as of January 2007 to provide, in all calls made to its customers that are directed to voicemail, an announcement that the call is being directed to voicemail. Partner is not allowed to charge for a call terminated up to one second after the announcement is made. Such regulation has adversely affected its financial results.

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Amendment to share options

At an extraordinary general meeting held on May 8, 2007, our shareholders approved an amendment to the terms of all share options which were outstanding as of the date of the general meeting and which were outstanding and unvested as at the time of the payment of a special dividend to be declared and paid out of the proceeds from our sale of CGP Investments Holdings to Vodafone, pursuant to which the exercise price of these share options would be adjusted downwards by an amount equal to the amount of the special dividend on a dollar-for-dollar basis. Subject to the special dividend being paid, which will result in an adjustment to the exercise price, we will recognize a charge against staff costs in our 2007 results as a result of the amendment.

Our shareholders also approved an amendment to our share option plan at the same extraordinary general meeting pursuant to which, upon a distribution to shareholders of any cash (other than the special dividend to be declared and paid out of the proceeds from our sale of CGP Investments Holdings or dividends in the ordinary course), the exercise price of any options which had been granted but not been exercised as of the date of the distribution would be adjusted downwards by an amount which our directors considered to reflect the impact such distribution would have or would likely have on the trading price of our shares. The declaration and payment of a special dividend and implementation of an adjustment to the share option exercise price could result in a charge against staff costs in the year that such adjustment took effect.

Critical Accounting Policies

The preparation of accounts often requires the selection of specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our consolidated balance sheet, the turnover and expenses in our consolidated profit and loss account and the information that is contained in the significant accounting policies and notes to our accounts. Our management bases its estimates and judgments on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgments under different assumptions or conditions.

We believe that the following are some of the more critical judgment areas in the application of our accounting policies under HKFRS that affect our reported financial condition and results of operations. For a further discussion of the application of these and other accounting policies, see Note 2 to our accounts.

Long-lived Assets

We have substantial investments in tangible and intangible long-lived assets, primarily our mobile and fixed-line telecommunications networks and licenses. Changes in technology or changes in our intended use of these assets may cause the estimated period of use or value of these assets to change.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We continually monitor our businesses, markets and business environments and make judgments and assessments about whether such an event has occurred. A provision for impairment in value is recognized with respect to an asset to the extent that the carrying amount cannot be recovered either by selling the asset or from the discounted future earnings from operating the asset. Under US GAAP, the impairment review first compares the future undiscounted cash flows expected to be generated from the continued use and ultimate disposition of an asset with the book value of the asset. If these cash flows are not sufficient to recover the book value of the asset, an impairment charge is recognized based on the comparison between the discounted value of these cash flows and the book value of the asset. The impairment charge is recognized in our consolidated profit and loss account.

Management judgment is required in the area of asset impairment, 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 our reported financial condition and results of operations.

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In 2004, OFTA announced a 3 years moratorium upon expiry of our CDMA license in 2005, in order for us to migrate our CDMA customers to 2G or 3G networks. In addition, as part of our cost saving initiatives, certain network and information technology services and maintenance were outsourced. As a result of the foregoing, we recorded an impairment loss on telecommunications and network equipment of HK\$142 million for the year ended December 31, 2004.

Under US GAAP, the impairment test has been performed in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Goodwill

Under HKFRS, goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net assets of the acquired subsidiary company or associated company at the date of acquisition. Goodwill on acquisition is reported in our 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. The recoverable amount is the higher of fair value less cost to sell and value in use, based on present value calculation. 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. We allocate goodwill to each business segment in each country in which we operate.

Under US GAAP, we perform 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 unrecognized 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.

Deferred Taxation

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in our consolidated financial statements. Deferred tax liabilities are provided in full on all taxable temporary differences. Deferred tax assets are recognized 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 utilized.

We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the recognition criteria for deferred tax assets recorded in relation to cumulative tax loss carry forwards. Our assumptions regarding future profitability and the anticipated timing of utilizing 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 our reported financial condition and results of operations. As of December 31, 2005 and 2006, we had recognized HK\$918 million and HK\$997 million (US\$128 million), respectively, in deferred tax assets.

Income Taxes

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

Depreciation of Fixed Assets

Our business is capital intensive. Depreciation of operating assets constitutes a substantial operating cost for us. The cost of our fixed assets, principally telecommunications and network equipment, is charged to depreciation expense over their estimated useful lives. We depreciate our telecommunications and network equipment using the straight-line method over their estimated useful lives. We periodically review changes in our technology and industry conditions, asset retirement activity and salvage values to determine adjustments to estimated remaining useful lives and depreciation rates.

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During the year ended December 31, 2005, we evaluated the useful lives for mobile telecommunications network assets within India, through 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, we 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, we concluded that the useful lives of these network assets should be extended from 9.67 years to 15 years. We considered this to be a change in accounting estimate and therefore accounted for the change prospectively from January 1, 2005. The effect of this change in accounting estimate was to decrease depreciation charge by HK\$360 million, increase deferred tax charge by HK\$248 million and decrease loss attributable to equity holders by HK\$60 million. As a result of this change, annual depreciation expense of these network assets has been decreased by HK\$343 million (US\$44.1 million) for the year ended December 31, 2006 and will be decreased by HK\$298 million (US\$38.3 million) for the year ending December 31, 2007.

Actual economic lives may differ from our estimated useful lives. Periodic reviews could result in a change in our depreciable lives and therefore our depreciation expense in future years.

Amortization of Telecommunications Spectrum Licenses

We own licenses to use and operate specified spectrums in some jurisdictions over a certain period of time, for which we pay annual minimum fees plus a variable portion depending on the future revenues from the services. The discounted value of the fixed portion of annual license 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 capitalized. Capitalized licence fees are amortized from the date the asset is ready for its intended use until the expiration of the license. The variable portion of license fees are recognized as period costs.

Amortization of Telecommunications Customer Acquisition and Retention Costs

Costs to acquire or retain mobile telecommunication customers, which are primarily postpaid 3G customers, pursuant to a contract with early termination penalties are capitalized and amortized over the minimum enforceable contractual period, which is generally a period of 12 to 18 months. In the event that a customer terminates a service contract prior to the expiration of the minimum enforceable contractual period, any unamortized customer acquisition or retention costs are written off in the period in which the customer terminates.

Revenue Recognition

Our postpaid and prepaid revenues are generated based on tariff plans. Postpaid revenues are recognized upon delivery of services and when collectibility is reasonably assured, and prepaid revenues are recognized based on the prepaid billing system when the services have been used by the prepaid customers or when the services periods have expired.

Revenues and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the distributors or dealers, or directly by customers when it is considered to be a separate earnings process from the sale of wireless services. In Thailand, our wireless handsets cannot be used on any other network or without purchasing our service. As a result, under US GAAP, the handset sales are not separated from the service contracts and the handset and service fees are accounted for as one unit of accounting and recognized over the estimated customer life. Revenues generated from the sale of wireless handsets and accessories are immaterial to our total turnover.

Foreign Exchange

Our reporting currency is Hong Kong dollars. The accounts of our overseas subsidiaries and associated companies are translated into Hong Kong dollars using the year-end rates of exchange for the balance sheet and the average rates of exchange for the year for the profit and loss items. A significant portion of our turnover, operating profit (loss), assets and loans are related to our overseas operations, and are generally denominated in currencies other than our reporting currency. Accordingly, fluctuations in the exchange rate between our reporting currency, the Hong Kong dollar, and India Rupee, Thai Baht and New Israeli Shekel could have a significant impact on our reported profit (loss), assets or liabilities.

Increase in Proportionate Share of Subsidiaries

The increase in our 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 recognized as goodwill or negative goodwill.

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Reconciliation to US GAAP

Our consolidated accounts are prepared in accordance with HKFRS, which differ in various material aspects from US GAAP. These material differences, as they apply to our consolidated accounts can be read in note 36 to the accounts.

The following table sets forth a comparison of our net profit/(loss) attributable to equity holders of the Company and shareholders' equity in accordance with HKFRS and US GAAP for the years indicated:

	As at or for the year ended 31 December		
	2004 HK\$ millions	2005 HK\$ millions	2006 HK\$ millions
Net profit/(loss) attributable to equity holders of the Company			
HKFRS	(30)	(768)	201
US GAAP	<u>(232)</u>	<u>(915)</u>	<u>(493)</u>
Shareholders' equity			
HKFRS	13,830	16,170	16,659
US GAAP	<u>12,709</u>	<u>13,680</u>	<u>13,349</u>

Recent Accounting Pronouncements

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended December 31, 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

We 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 our accounting policies.

Effect of Recent Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” or 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 were required to adopt FIN 48 effective January 1, 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. We are currently evaluating the impact of FIN 48 on our future results of operations and financial position.

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Fair Value Measurement

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement," or 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 January 1, 2008 on a prospective basis. We are 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, FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities," or SFAS 159. SFAS 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value. 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 January 1, 2008. We are 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," or 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," or 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 our results of operations and financial position as we had adopted SAB 108 for our fiscal year ended December 31, 2006.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Our board currently consists of two executive directors, four non-executive directors and three independent non-executive directors.

The following table sets forth certain information concerning our current directors. All of our executive officers are also executive directors or alternate directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
FOK Kin-ning, Canning	55	Chairman and Non-Executive Director
Dennis Pok Man LUI	56	Executive Director and Chief Executive Officer
Tim Lincoln PENNINGTON	46	Executive Director and Chief Financial Officer
Frank John SIXT	55	Non-Executive Director
Michael John O'CONNOR	40	Non-Executive Director
Aldo MAREUSE	43	Non-Executive Director
KWAN Kai Cheong	57	Independent Non-Executive Director
John W. STANTON	51	Independent Non-Executive Director
Kevin WESTLEY	58	Independent Non-Executive Director
Alternate Directors⁽¹⁾		
CHOW WOO Mo Fong, Susan	53	Alternate Director to Fok Kin-ning, Canning and Frank John Sixt
CHAN Ting Yu	56	Alternate Director to Dennis Pok Man Lui
WOO Chiu Man, Cliff	53	Alternate Director to Tim Lincoln Pennington
Martin Wolfgang MICHLMAYR	35	Alternate Director to Michael John O' Connor
Ragy SOLIMAN	32	Alternate Director to Aldo Mareuse

- (1) Under our Articles of Association, each director is empowered to appoint any person (including another director) to be his alternate director. Any alternate director has all the rights and powers of the appointing director. An alternate director may be removed at any time by the person who appointed him. Subject to such removal, the office of alternate director shall continue until the happening of any event which, if he was a director, would cause him to vacate such office or until the appointing director ceases for any reason to be a director. An alternate director shall only be a director for the purpose of the Companies Law of the Cayman Islands, or the Companies Law, and shall only be subject to the provisions of the Companies Law insofar as they relate to the duties and obligations of a director when performing the functions of the director for whom he is appointed in the alternative. An alternate director shall alone be responsible to our company for his acts and defaults and shall not be deemed to be the agent of or for the appointing director.

FOK Kin-ning, Canning is the chairman and a non-executive director of our company and is the chairman of our remuneration committee. He has served as a director and as chairman since March 2004. Mr. Fok obtained a Bachelor of Arts degree from St. John's University in Minnesota in 1974 and a diploma in financial administration from the University of New England in Australia in 1976. He is a member of the Australian Institute of Chartered Accountants. Mr. Fok has been an executive director of our substantial shareholder, Hutchison Whampoa, since 1984 and its group managing director since 1993. He also serves as the chairman of Hutchison Harbour Ring Limited, or Hutchison Harbour Ring, Hutchison Telecommunications (Australia) Limited, or Hutchison Telecommunications Australia, Hongkong Electric Holdings Limited, or Hongkong Electric, and Partner, a co-chairman of Husky Energy Inc., or Husky Energy, the deputy chairman of Cheung Kong Infrastructure Holdings Limited, or Cheung Kong Infrastructure, and a director of Cheung Kong Holdings. Pursuant to the terms of the Shareholders Agreement dated December 21, 2005, or the Shareholders Agreement, between Hutchison Telecommunications Investment, Hutchison Whampoa, Orascom Eurasia and Orascom Holdings, each of Hutchison Telecommunications Investment and Orascom Eurasia is entitled to nominate two non-executive directors to the board of our company and is obligated to vote its shares in favor of the appointment and continued presence of those nominees. Mr. Fok was nominated to our board of directors by Hutchison Telecommunications Investment under the Shareholders Agreement.

Dennis Pok Man LUI is an executive director and the chief executive officer of our company in charge of our overall management. He has served as a director since March 2004. Mr. Lui graduated in 1974 from the University of Oregon with a Bachelor of Science degree. Mr. Lui first joined Hutchison Paging Limited in 1986 and became its managing director in 1993. He was the managing director of Hutchison Telecommunications (Hong Kong) Limited in charge of its mobile telecommunications, fixed-line, multi-media, internet and paging businesses in Hong Kong, China, Taiwan and Macau from January 1996 to April 2000. Mr. Lui rejoined the Hutchison Whampoa group in May 2001 as group managing director of HTI (1993) Holdings Limited, or HTI 1993 Holdings, overseeing all the operations and new business development of the HTI 1993 Holdings group. Mr. Lui is also a director of Partner.

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Tim Lincoln PENNINGTON is an executive director and the chief financial officer of our company. He has served as a director since March 2004. Mr. Pennington obtained a Bachelor of Arts (Honors) degree in Economics and Social Studies from the University of Manchester in the United Kingdom in 1982 and became an Associate of the Chartered Institute of Bankers in 1985. He joined the Hutchison Whampoa group as finance director of Hutchison 3G (UK) Limited in the United Kingdom in July 2001. Prior to that, Mr. Pennington was a managing director at HSBC Investment Bank within the Corporate Finance and Advisory Department from 1999 to July 2001, having joined that company in 1996. In that capacity, he was involved in advising and financing telecommunications and technology companies. Prior to that, he was a director in the Specialized Financing Department at Samuel Montagu & Co. Limited between 1990 and 1996, having joined that company in 1990.

Frank John SIXT is a non-executive director of our company. He has served as a director since March 2004. Mr. Sixt obtained a Bachelor's degree in Arts in 1972, and a Master's degree in Arts and a Bachelor's degree in Civil Law in 1978, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada. He has been an executive director of Hutchison Whampoa since 1991 and its group finance director since 1998. Mr. Sixt is the chairman of TOM Group Limited and TOM Online Inc. He is also an executive director of Cheung Kong Infrastructure and Hongkong Electric, and a director of Cheung Kong Holdings, Hutchison Telecommunications Australia, Partner and Husky Energy. Mr. Sixt was nominated to our board of directors by Hutchison Telecommunications Investment under the Shareholders Agreement.

Michael John O'CONNOR is a non-executive director of our company. He was appointed as a director on February 28, 2007. Mr. O'Connor holds a Masters degree in Economics and Finance from Carleton University in Ottawa, Ontario, Canada. He has 17 years of experience in strategy formulation and economic and financial modeling in telecommunications and transportation sectors. He has held senior executive positions within Orascom Holding since 1999, where he currently holds the position of Investment and Business Development Officer. Previously he was the Director of the Center for Economic and Financial Analysis at Science Applications International Corporation, one of the largest consultancy companies in the United States based in Washington, DC and San Diego, California. Mr. O'Connor was nominated to our board of directors by Orascom Eurasia under the Shareholders Agreement.

Aldo MAREUSE is a non-executive director of our company. He has served as a director since December 2005. He is group chief financial officer of Orascom Holding, a position he has held since 2002. He is a member of the board of directors of Orascom Holding's Algerian, Egyptian, Pakistani and Tunisian GSM subsidiaries among others and also a member of the board of directors of Wind, a mobile and fixed telecommunication operator in Italy. Prior to joining Orascom Holding, he worked from 1990 to 2002 in various positions and locations in the investment banking division of Credit Suisse First Boston, or CSFB. His last position within CSFB was managing director in the investment banking division, telecommunications group. He holds an Engineering degree from Ecole Centrale de Lyon (France). Mr. Mareuse was nominated to our board of directors by Orascom Eurasia under the Shareholders Agreement.

KWAN Kai Cheong is an independent non-executive director of our company and a member of our audit committee and remuneration committee. He has served as a director since August 2004. Mr. Kwan holds a Bachelor of Accountancy (Honors) degree from the University of Singapore and is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in Australia and a Fellow of Hong Kong Institute of Directors. Mr. Kwan is currently president of Morrison & Company Limited, which is a business consultancy firm. He worked for Merrill Lynch & Co. Inc. for over 10 years during the period from 1982 to 1993. His last position with Merrill Lynch was president for its Asia Pacific region. He was also previously the joint managing director of Pacific Concord Holding Limited. Mr. Kwan is a non-executive director of China Properties Group Limited and China Medical Science Limited and an independent non-executive director of Hutchison Harbour Ring, Henderson Sunlight Asset Management Limited, SPG Land (Holdings) Limited, Win Hanverky Holdings Limited, Soundwill Holdings Limited, T S Telecom Technologies Limited and JF Household Furnishings Limited. Mr. Kwan completed the Stanford Executive Program in 1992.

John W. STANTON is an independent non-executive director of our company and a member of our audit committee. He has served as a director since August 2004. Mr. Stanton is the managing director of Trilogy Partners, a board member of Alltel Corporation and Columbia Sportswear, Inc. and a trustee of Whitman College. He was the chairman and chief executive officer of Western Wireless Corporation, or Western Wireless, from 1994 until it was sold to Alltel Corporation in 2005. From 1991 to 1994, Mr. Stanton was chairman and chief executive officer of both Pacific Northwest Cellular and General Cellular Corporation, each a predecessor of Western Wireless. From 1995 to 2001, he also served as chairman and chief executive officer of VoiceStream Wireless Corporation, which was spun off from Western Wireless in May 1999. Mr. Stanton served two terms as chairman of the Cellular Telecommunications Industry Association, from 1998 to 1999 and from 2000 to 2001. Mr. Stanton graduated from Whitman College with a Bachelor of Arts in Political Science and received his M.B.A. from Harvard Business School.

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Kevin WESTLEY is an independent non-executive director of our company and is chairman of our audit committee and a member of our remuneration committee. He has served as a director since August 2004. Mr. Westley holds a Bachelor of Arts (Honors) degree in History from the London School of Economics and Political Science and is a Fellow member of the Institute of Chartered Accountants in England and Wales. He joined the merchant banking arm of the HSBC group in 1977 and retired in June 2000 as chairman and chief executive of HSBC Investment Bank Asia Limited. Mr. Westley is a part-time employee of The Hongkong and Shanghai Banking Corporation Limited where he acts as adviser to the chairman. Certain affiliates of the HSBC group are lenders to our company and the Hutchison Whampoa group. In 2006, Mr. Westley was appointed as a member of the Hong Kong Securities and Futures Commission's Committee on Real Estate Investment Trusts. Mr. Westley is also the chairman of the Takeovers and Mergers Panel of Hong Kong, a member of the Share Registrars Disciplinary Committee and the deputy chairman of Ocean Park Corporation.

CHOW WOO Mo Fong, Susan is an alternate director to each of Mr. Canning Fok and Mr. Frank Sixt on our board of directors. She has served as an alternate director to Mr. Fok since December 2005, and an alternate director to Mr. Sixt since September 1, 2006. Prior to that Mrs. Chow had been a non-executive director of our company from March 2004 until December 2005. Mrs. Chow has been an executive director of Hutchison Whampoa since 1993 and its deputy group managing director since 1998. Mrs. Chow is also an executive director of Cheung Kong Infrastructure, Hutchison Harbour Ring and Hongkong Electric, and a director of Hutchison Telecommunications Australia, Partner and TOM Group Limited. Mrs. Chow is a solicitor and holds a Bachelor's degree in Business Administration.

CHAN Ting Yu is an alternate director to Mr. Dennis Lui on our board of directors. He has served as an alternate director since December, 2005, and prior to that had been an executive director of our company from March 2004 until December 2005. Mr. Chan is also our company's corporate development director. Mr. Chan is also a director of Partner. Prior to joining the Hutchison Whampoa group in 1994, Mr. Chan practiced international commercial and investment law in Hong Kong and Australia. Mr. Chan was appointed deputy managing director of HTI 1993 Holdings in January 1996. He holds a Bachelor of Arts degree, a Bachelor of Laws degree, a Postgraduate Certificate in Laws and a Diploma of Teaching.

WOO Chiu Man, Cliff is an alternate director to Mr. Tim Pennington on our board of directors. He has served as an alternate director since December, 2005, and prior to that had been an executive director of our company from March 2005 until December 2005. Mr. Woo is also our company's chief technology officer, having joined us in that position in September 2004. Prior to joining our company, Mr. Woo was the deputy managing director and wireless network director of Hutchison Telecommunications Hong Kong since 2000, having joined that company in 1998. He is a Chartered Engineer and is also a Member of Institution of Electrical Engineers and The Hong Kong Institution of Engineers. Mr. Woo holds a Bachelor's degree in Electronics and a Diploma in Management for Executive Development.

Martin Wolfgang MICHLMAYR is an alternate director to Mr. Michael John O'Connor on our board of directors. He was appointed as an alternate director for Mr. O'Connor on February 28, 2007, and prior to that had been an alternate director to Mr. Naguib Sawiris since December 2005. Mr. Michlmayr is the corporate finance director at Orascom Holding, and a founding member of Orascom Holding's Paris-based corporate finance office, which he joined in July 2002. Prior to joining Orascom Holding, Mr. Michlmayr worked in the investment banking division at JPMorgan in New York and London beginning in 1998. From 1992 to 1997, Mr. Michlmayr worked for Bank of America and American International Group in San Francisco. He holds a Bachelor of Arts degree in German Literature and a Master's degree in Business Administration.

Ragy SOLIMAN is an alternate director to Mr. Aldo Mareuse on our board of directors. He has served as an alternate director since December, 2005. Mr. Soliman is a legal affairs director at Orascom Holding, having been appointed in April 2003. Prior to joining Orascom Holding, Mr. Soliman represented a broad range of international corporate and governmental clients as a senior associate with Egyptian and international law firms. He holds a Bachelor of Law (LL.B) degree and a Master's degree in International Business Law.

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B. Compensation

Our directors receive compensation in the form of salaries, discretionary bonuses, housing allowance, provision of company car, club membership, participation in our retirement scheme, medical coverage, life insurance and annual leave. We have entered into service contracts with our directors which may be terminated by either party giving not less than six months' written notice. None of these service contracts provide pension, retirement or similar benefits to our directors upon termination.

Directors' emoluments comprise payments to directors by us and our subsidiaries in connection with the management of the affairs of our group. The emoluments of the directors of our company, excluding amounts received from our listed subsidiaries and paid to us, for the year ended December 31, 2006 are as follows:

Name of Director	Fees	Basic salaries, allowance and benefits-in-kind	Bonus	Provident fund contribution (HK\$ millions)	Share-based payments(b)	2006 Total
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 (a)	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
Total	<u>3.57</u>	<u>7.07</u>	<u>13.73</u>	<u>0.89</u>	<u>19.35</u>	<u>44.61</u>

Notes:

- (a) Resigned as director of our company on February 28, 2007.
- (b) Share option benefits represent the fair value of share options granted under our share option scheme, which is calculated in accordance with the methodology disclosed in note 27(b) to our accounts. This methodology does not take into account the actual share price at the date of exercise and whether the share options have been exercised. All share options were granted on August 8, 2005. No share options were granted in 2006. None of our directors exercised their share options during 2006.

C. Board Practices

We are managed by a board of directors which must consist of not less than two members. Our board of directors consists of nine directors and five alternate directors. Our articles of association were amended by special resolution at our annual general meeting on May 5, 2005 so that one-third (or any other fraction that may be required under the listing rules of the Hong Kong Stock Exchange or other applicable rules) of all of our directors, including the chairman of our board and the managing director of our company, are subject to retirement from office by rotation at each general meeting. Our articles of association were further amended by special resolution at our extraordinary general meeting held on May 8, 2007 so that: (i) all directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting instead of the first annual general meeting after their appointment; (ii) our shareholders can remove any director in a general meeting by ordinary resolution; and (iii) at each annual general meeting one-third of our directors or, if their number is not a multiple of three, the number nearest to but not less than one-third (instead of not greater than one-third) shall retire from office by rotation.

Accordingly, any directors who are appointed by our board of directors to fill a casual vacancy must retire at the next general meeting while any directors who are appointed as additional director must retire at the next annual general meeting. Retiring directors are eligible for re-election. Two of our directors, Messrs. Dennis Lui and Kwan Kai Cheong, retired by rotation, and one director who was appointed by our board on February 28, 2007, Mr. Michael O'Connor, retired at our annual general meeting held on May 8, 2007. All of them were re-elected at the same meeting.

None of our non-executive directors has a service contract with us providing for benefits upon termination of appointment. The term of office for each of our non-executive directors was specified in their respective appointment letters as expiring on December 31, 2007, with automatic renewal for successive 12 month periods, subject to resignation and re-election.

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Each of our executive directors has a fixed term of office. The current terms of employment for Messrs. Dennis Lui and Tim Pennington will expire on June 30, 2007 and April 30, 2008, respectively. Unless terminated earlier, their terms will automatically extend for further periods of one year except that their respective employments may not be extended for a total period of more than three years without the prior approval of our shareholders. The service contracts that we have with our executive directors do not provide for any benefits upon termination of employment, save to the extent that we would be required to make compensation payments in lieu of notice if the contract is terminated by us other than for cause. The notice period for each of our executive directors is six months.

Audit Committee

We have an audit committee comprised of our three independent non-executive directors, Messrs. Kevin Westley (chairman), Kwan Kai Cheong and John W. Stanton. All three are independent within the meaning of the standards established by the Hong Kong Stock Exchange and the applicable standards established by the New York Stock Exchange for foreign private issuers and by the Securities and Exchange Commission.

As set forth in its terms of reference, our audit committee is responsible for assisting our board of directors in (i) ensuring that an effective system of internal control and compliance with our obligations (including external financial reporting obligations) under stock exchange listing rules and applicable laws and regulations is in place, (ii) overseeing the integrity of our accounts and (iii) overseeing our compliance with legal and regulatory requirements. The audit committee is also directly responsible on behalf of the board of directors for the selection, oversight and remuneration of our external auditor, the assessment of the independence and qualifications of our external auditor, and the oversight of the performance of our internal audit function and external auditor.

Remuneration Committee

We have a remuneration committee comprising Messrs. Canning Fok (chairman), Kwan Kai Cheong and Kevin Westley. Under the rules of the Hong Kong Stock Exchange, a majority of the members of the remuneration committee must be independent non-executive directors. Messrs. Kwan and Westley are independent non-executive directors within the meaning of the standards established by the Hong Kong Stock Exchange. As a foreign private issuer, we are not required to comply with the independence requirements for remuneration or compensation committees established by the New York Stock Exchange.

As set forth in its terms of reference, our remuneration committee is responsible for assisting our board of directors in the development and administration of a fair and transparent procedure for setting policies on the remuneration of our directors and senior management and for determining their remuneration packages.

D. Employees

As of December 31, 2006, we and our subsidiaries had a total of 13,765 full-time employees. Including employees of 3 Global Services, a call center company in India, our total number of employees as of December 31, 2006 would have been approximately 20,000. However, because we did not consolidate the financial results of the call center business 3 Global Services in 2006, as described in “Information on the Company—Business Overview—Operating Companies Review—India—Acquisitions—India Call Center Acquisition,” we have not included the employees of 3 Global Services in the information below.

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The table below sets forth the number of employees by function as of December 31, 2006:

	Employees	
	Number	% of Total
Managers	1,163	8.45%
Supervisory	2,151	15.63%
General and administrative	10,451	75.92%
Total	13,765	100.0%

The following table sets out the number of employees for our business segments as of the dates indicated:

	As of December 31,		
	2004	2005	2006
Hong Kong mobile (including Macau) and fixed-line	4,798	2,455	1,656
India ⁽¹⁾	4,616	5,120	6,154
Israel	—	3,405	4,214
Thailand	1,397	1,004	923
Others	549	533	818
Total	11,360	12,517	13,765

(1) Israel did not become a subsidiary until April 2005, and therefore we did not include its employees in 2004.

As of December 31, 2006, we and our subsidiaries had retained a total of approximately 798 temporary employees, part-time employees and contract employees.

Our total number of employees will significantly decline in 2007 as personnel in India will no longer be included due to our sale of CGP Investments Holdings to Vodafone. The number of our employees in Hong Kong and Macau declined from 2,455 as of December 31, 2005 to 1,656 as of December 31, 2006 primarily as a result of our disposal of Vanda IT Solutions in July 2006. The number also declined significantly, from 4,798 as of December 31, 2004 to 2,455 as of December 31, 2005, as the result of restructuring of our mobile and fixed-line operations there, including outsourcing of IT and network management functions.

We have adopted a recruiting strategy to attract and retain quality employees. We conduct periodic reviews of our employees' job performance, and determine salaries and discretionary bonuses based upon those reviews. In addition, we offer internal training programs tailored to different job requirements to help enhance our employees' talents and skills. We believe that these initiatives have contributed to the growth of our business.

We believe that we maintain a good working relationship with our employees and have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations. Our employees are not represented by any company-specific collective bargaining agreements or labor unions except in Ghana. We believe that we maintain a good working relationship with the labor union in Ghana.

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E. Share Ownership

The following table sets forth the number of ordinary shares of our company held by our directors and alternate directors as of June 15, 2007.

Director	Number of Shares Held	Percentage of Shares Outstanding
FOK Kin-ning, Canning ⁽¹⁾	1,202,380	*
Dennis Pok Man LUI	100,000	*
Tim Lincoln PENNINGTON ⁽²⁾	—	—
Frank John SIXT	255,000	*
Michael John O'CONNOR	—	—
Aldo MAREUSE	—	—
KWAN Kai Cheong ⁽⁴⁾	—	—
John W. STANTON	105,000	*
Kevin WESTLEY	—	—
CHOW WOO Mo Fong, Susan	250,000	*
CHAN Ting Yu	100,000	*
WOO Chiu Man, Cliff	—	—
Martin Wolfgang MICHELMAYR	—	—
Ragy SOLIMAN	—	—
Total	2,012,380	*

* Less than 1%.

(1) Shares are held through a company which is equally controlled by Mr. Fok and his spouse.

(2) Shares are held in the form of 17,000 ADSs.

(3) Shares are held in the form of 7,000 ADSs jointly by Mr. Stanton and his spouse.

The following table sets forth the options for the purchase of ordinary shares held by our directors and alternate directors as of June 15, 2007.

Director/Alternate Director	Date of grant of share options	Number of share options held	Expiration date of the share options ⁽¹⁾	Exercise price of share options ⁽²⁾ (HK\$)
Dennis Pok Man LUI	August 8, 2005	9,000,000	August 7, 2015	8.70
Tim Lincoln PENNINGTON	August 8, 2005	3,333,333	August 7, 2015	8.70
CHAN Ting Yu	August 8, 2005	3,333,333	August 7, 2015	8.70
WOO Chiu Man, Cliff	August 8, 2005	2,333,333	August 7, 2015	8.70

(1) One third of the share options vest on each of the first three anniversaries of the grant date. Options that had vested on the first anniversary of the grant date have been exercised and shares that were received upon exercise were all sold.

(2) Subject to adjustment upon payment of a declared special dividend on June 29, 2007. See "Information on the Company—Business Overview—Group Overview" and "—Share Option Plan."

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Share Option Plan

The following is a summary of the principal terms of our share option plan conditionally approved and adopted by a resolution of our then sole shareholder passed on September 17, 2004. As required under the listing rules of the Hong Kong Stock Exchange, the share option plan was approved by the shareholders of Hutchison Whampoa at an extraordinary general meeting of the shareholders of Hutchison Whampoa held on May 19, 2005. It was subsequently amended by written resolutions of our directors passed on July 12, 2005 and February 9, 2006 respectively, and by our shareholders at an extraordinary general meeting held on May 8, 2007. The share option plan has a term of ten years commencing on the date on which the share option plan becomes unconditional and its purpose is to enable us to grant options to selected participants, including employees, non-executive directors, consultants, suppliers and customers, as incentives or rewards for their contribution to our company.

The grant of any options by us for the subscription of ordinary shares or other securities of ours to any eligible person shall not, by itself, unless the directors otherwise determine, be construed as a grant of options under the share option plan. The eligibility of any participant to receive a grant of any options shall be determined by the directors from time to time on the basis of their contribution to our development and growth.

The maximum number of ordinary shares that may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under this share option plan and any other share option plan must not in the aggregate exceed 30% of our ordinary shares issued and outstanding from time to time. The total number of ordinary shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of this share option plan and any other share option plan of our group) to be granted under this share option plan and any other share option plan of ours must not in the aggregate exceed 10% of our ordinary shares issued and outstanding as of the date on which the shares are first listed on the Hong Kong Stock Exchange, assuming no ordinary shares are allotted, issued or repurchased by our company on or prior to the date on which such resolution is passed. Based on the number of ordinary shares issued and outstanding as of June 15, 2007, the limit under the share option plan is 477,539,621 ordinary shares. We may seek separate approval of our shareholders in a general meeting to grant options beyond these limits.

No participant under this share option plan or any other share option plan may receive awards in any 12-month period of more than 1% of our issued ordinary share capital. Any grant of options in excess of 1% in any such 12-month period must be approved by our shareholders in a general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of the options to be granted (and options previously granted to such participant) must be fixed before the approval of the shareholders and the date of the board meeting proposing such further grant will be the date of grant for the purpose of calculating the exercise price if such grant is approved.

Any grant of options under the share option plan to a director, chief executive or substantial shareholder of our company or any of their respective associates must be approved by our independent non-executive directors (excluding any independent non-executive director who is also the grantee of the options). Approval of our shareholders in a general meeting is required if any grant of options to a substantial shareholder, an independent non-executive director or any of their respective associates would result in the ordinary shares issued and to be issued upon the exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (1) representing in the aggregate over 0.1% of the ordinary shares in issue; and (2) having an aggregate value, based on the closing price of the ordinary shares at the date of each grant, in excess of HK\$5 million. Any such meeting must be in accordance with the listing rules of the Hong Kong Stock Exchange. Any change in the terms of options granted to a substantial shareholder, an independent non-executive director or any of their respective associates must also be approved by our shareholders in a general meeting.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. The subscription price for ordinary shares under the share option plan shall be a price determined by the directors but shall not be less than the highest of: (1) the closing price of ordinary shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for trade in one or more board lots of ordinary shares on the date of the offer of grant which must be a business day; (2) the average closing price of ordinary shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for trade in one or more board lots of ordinary shares for the five trading days immediately preceding the date of the offer of grant which must be a business day; and (3) the nominal value of the ordinary shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

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At an extraordinary general meeting held on May 8, 2007, our shareholders approved an amendment to the terms of all share options which were outstanding as of the date of the general meeting and which were outstanding and unvested as at the time of the payment of a special dividend to be declared and paid out of the proceeds from our sale of CGP Investments Holdings to Vodafone, pursuant to which the exercise price of these share options would be adjusted downwards by an amount equal to the amount of the special dividend on a dollar-for-dollar basis. Our shareholders also approved an amendment to our share option plan at the same extraordinary general meeting pursuant to which, upon a distribution to shareholders of any cash (other than the special dividend to be declared and paid out of the proceeds from our sale of CGP Investments Holdings or dividends in the ordinary course), the exercise price of any options which had been granted but not been exercised as of the date of the distribution would be adjusted downwards by an amount which our directors considered to reflect the impact such distribution would have or would likely have on the trading price of our shares.

In addition to the options granted to the directors of our company on August 8, 2005, options in respect of an aggregate of 45,300,000 shares were also granted to our other employees on August 8, 2005, for an aggregate of 76,300,000 options. These options are exercisable during the period from August 8, 2006 to August 7, 2015 at the exercise price of HK\$8.70 per share. As of June 15, 2007, 41,033,333 options were issued and outstanding.

ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table below sets forth information with respect to persons who were beneficial owners of 5% or more of our outstanding ordinary shares as at June 15, 2007 to the extent that such information is available to us or can be ascertained from public filings.

Name of beneficial owner	Ordinary shares beneficially owned	
	Number	Percent
Hutchison Whampoa Limited ⁽¹⁾	2,387,869,730	50.0%
Cheung Kong (Holdings) Limited ⁽²⁾⁽³⁾	2,439,962,317	51.1%
Orascom Telecom Holding S.A.E. ⁽⁴⁾	917,759,172	19.2%

(1) Hutchison Telecommunications Investment, an indirect wholly-owned subsidiary of Hutchison Whampoa, directly owns 2,178,903,076 ordinary shares and Hutchison Telecommunications Holdings Limited (formerly named New Brilliant Holdings Limited), or Hutchison Telecommunications Holdings, a direct wholly-owned subsidiary of Hutchison Telecommunications Investment, directly owns 208,966,654 of our ordinary shares. The following significant changes in Hutchison Whampoa's ownership of our shares have taken place during the past three years:

- Prior to June 23, 2005, Hutchison Whampoa held 3,157,033,347 of our shares, representing 70.2% of our then-issued share capital. On June 23, 2005, Hutchison Whampoa acquired 187,966,653 of our ordinary shares, increasing its ownership to 3,345,000,000 of our shares, representing 74.3% of our then-issued share capital. The aggregate consideration paid for these shares was approximately HK\$1,299 million. Hutchison Whampoa made the acquisition pursuant to the exercise by NTT DoCoMo of an option to require Hutchison Whampoa to purchase or procure the purchase of 187,966,653 of our shares held by NTT DoCoMo. The acquisition was effected through the purchase by Hutchison Telecommunications Investment of all of the outstanding shares of Hutchison Telecommunications Holdings, through which NTT DoCoMo held our shares, from NTT DoCoMo.
- On July 15, 2005, the arrangement under which we privatized our subsidiary Hutchison Global Communications Holdings became effective. Under that arrangement, shareholders of Hutchison Global Communications Holdings could elect to receive consideration for their shares in the form of cash or our ordinary shares. As consideration for those shareholders of Hutchison Global Communications Holdings electing to receive our shares on August 8, 2005 we issued a total of 252,546,209 new ordinary shares, increasing our total issued shares to 4,752,546,209 ordinary shares. In addition, we had agreed with Hutchison Telecommunications Investment that to the extent that any of the Hutchison Global Communications Holdings shareholders were "connected persons" of our company or of Hutchison Whampoa under the listing rules of the Hong Kong Stock Exchange, and those connected persons elected to receive our shares as consideration, Hutchison Telecommunications Investment would transfer such number of our shares held by it to those connected persons as consideration for their Hutchison Global Communications Holdings shares. Pursuant to this arrangement, Hutchison Telecommunications Investment transferred 60,371,099 of our shares to the connected persons. In turn, we assumed an indebtedness to Hutchison Telecommunications Investment of approximately HK\$459 million, being the value of those shares. The indebtedness was repaid in full on August 8, 2005. As a result of these transactions, the number of our shares held by Hutchison Whampoa decreased from 3,345,000,000 to 3,284,628,901 shares, representing 69.1% of our then-issued share capital.

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- On December 21, 2005, Hutchison Telecommunications Investment sold 917,759,172 of our shares to Orascom Holding for a total consideration of approximately US\$1,300 million. As a result, the number of our shares held by Hutchison Whampoa decreased from 3,284,628,901 to 2,366,869,729, representing 49.8% of our then-issued share capital.
 - Hutchison Telecommunications Investment also granted Orascom Eurasia an option to purchase such number of ordinary shares of our company as shall immediately prior to the closing of the option represent approximately 3.69% of the total number of ordinary shares of our company then issued and outstanding at a price per ordinary share of the higher of (i) the average of the closing traded price of an ordinary share for the 30 trading days on the Hong Kong Stock Exchange immediately prior to the date that Orascom Eurasia delivers to Hutchison Telecommunications Investment a notice to exercise the option, and (ii) HK\$11.00. The option lapsed without being exercised.
 - As from June 2007, Hutchison Telecommunications Holdings had acquired an aggregate of 12,000,000 of our shares in the open market through the Hong Kong Stock Exchange for an aggregate consideration of approximately HK\$124.1 million (US\$15.9 million). As a result of these purchases, Hutchison Whampoa's ownership of our shares in issue increased from approximately 49.75% to approximately 50.0036% and it will account for us as a subsidiary.
- (2) Various direct or indirect wholly-owned subsidiaries of Cheung Kong Holdings, including Cheung Kong Enterprises Limited, collectively directly own 52,092,587 of our shares, representing approximately 1.1% of our issued share capital. Through its subsidiaries, Cheung Kong Holdings indirectly beneficially owns approximately 49.97% of the issued shares of Hutchison Whampoa. Pursuant to Rule 13d-3 under the Exchange Act, Cheung Kong Holdings and its subsidiaries may be deemed to control the voting and disposition of the 2,387,869,730 ordinary shares of our company beneficially owned by Hutchison Whampoa, but pursuant to Rule 13d-4 under the Act, Cheung Kong Holdings and its subsidiaries have expressly disclaimed beneficial ownership of these ordinary shares. The following significant changes in Cheung Kong Holdings' ownership of our shares have taken place during the past three years:
- Prior to August 5, 2005, Cheung Kong Holdings, through its subsidiaries, directly held 28,402,698 of our shares, representing 0.6% of our then-issued share capital. On August 5, 2005, in connection with the privatization of Hutchison Global Communications Holdings, Cheung Kong Enterprises Limited, a wholly owned subsidiary of Cheung Kong Holdings, received as a connected person 23,689,889 of our shares from Hutchison Telecommunications Investment on our behalf as consideration for its shares of Hutchison Global Communications Holdings. As a result, the number of our shares held by Cheung Kong Holdings through its wholly-owned subsidiaries increased from 28,402,698 to 52,092,587 shares, representing 1.1% of our then-issued share capital.
 - Other changes in Cheung Kong Holdings' ownership of our shares through its 49.97% interest in Hutchison Whampoa, are described in note (1) above.
- (3) Li Ka-Shing Unity Trustee Company Limited, as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of one third or more of the voting power at their general meetings, hold more than one third of the issued share capital of Cheung Kong Holdings. In addition, each of Li Ka-Shing Unity Trustee Corporation Limited, as trustee of a discretionary trust, and Li Ka-Shing Unity Trustcorp Limited, as trustee of another discretionary trust, holds units in The Li Ka-Shing Unity Trust. Mr. Li Ka-shing is the settlor of each of these discretionary trusts. Furthermore, each of Messrs. Li Ka-shing, Li Tzar Kuoi, Victor and Li Tzar Kai, Richard, is interested in one third of the entire issued share capital of Li Ka-Shing Unity Holdings Limited, a company which owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustee Corporation Limited and Li Ka-Shing Unity Trustcorp Limited.
- (4) Based on a Schedule 13D filed on January 3, 2006 by Orascom Holding, Orascom Eurasia, Weather Capital S.a.r.l., Weather Investments S.r.l., Weather Investments II S.a.r.l., April Holding and February Private Trust Company Limited. The Schedule 13D also disclosed that Orascom Holding, through Orascom Eurasia, had been granted an option to purchase approximately 3.69% of our shares from Hutchison Telecommunications Investment, as described in note (1) above. The option lapsed without being exercised.

Based on a Schedule 13G filed February 14, 2005 by FMR Corp, or FMR, Edward C. Johnson 3d and Abigail P. Johnson, FMR beneficially owned 260,688,040 of our shares, representing approximately 5.8% of our then-issued share capital. Based on an amended Schedule 13G filed on February 14, 2006 by FMR and Edward C. Johnson 3d, FMR was no longer the beneficial owner of more than 5% of the outstanding ordinary shares of our company.

Except as disclosed above, we are not aware of any other beneficial owners of 5% or more of our outstanding ordinary shares. Our major shareholders have voting rights that are identical to all the other shareholders.

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As of June 15, 2007, a total of 4,775,396,209 of our ordinary shares were outstanding. As of June 15, 2007, 2,399,526,479 of our ordinary shares were held by 734 record holders in Hong Kong, of which 232,028,415 of our ordinary shares were registered in the names of nominees of Citibank N.A., the depositary under our ADS deposit agreement, and 2,375,869,730 of our ordinary shares were held by one record holder in the Cayman Islands.

We are not aware of any arrangement which may at a later date result in a change of control of our company.

B. Related Party Transactions

This section describes certain transactions between us and parties with whom we have a relationship. In connection with our restructuring, we have entered into various agreements with the Hutchison Whampoa group, and there continue to be transactions between members of our group and members of the Hutchison Whampoa group.

Related party transactions with Hutchison Whampoa

We have entered into various agreements with Hutchison Whampoa or its subsidiaries as described below.

The Restructuring

Prior to the listing in October 2004 of our shares on the main board of the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange, a number of steps were taken to transfer companies within the Hutchison Whampoa group to us in preparation for such listings as well as to effect a harmonization of the group structure. The objective of the restructuring was to establish our company as a holding company for some of the Hutchison Whampoa group's telecommunications interests.

In summary, the restructuring, which was completed in September 2004, involved the following transactions between us and the Hutchison Whampoa group:

- The Hutchison Whampoa group's telecommunications interests in Hong Kong, Macau, India, Israel, Thailand, Sri Lanka, Paraguay and Ghana were transferred to us.
- Certain companies within the Hong Kong and Macau group, and within the India group, were transferred out to remain with the retained business of the Hutchison Whampoa group, because they were retained businesses of the Hutchison Whampoa group or operations that do not form part of our operations.
- Outstanding loans in the amount of HK\$20,869 million owed by our group companies to the Hutchison Whampoa group were capitalized through the issuance of 4,499,999,844 ordinary shares of our company to the Hutchison Whampoa group in September 2004. Outstanding debt in the amount of HK\$2,367 million owed by our group companies to the Hutchison Whampoa group was offset by HK\$2,056 million of receivables due from the Hutchison Whampoa group, leaving HK\$311 million of non-capitalized debt owed by us to the Hutchison Whampoa group following the restructuring.
- The Hutchison Whampoa group's rights and obligations under shareholders' agreements with NTT DoCoMo and NEC with respect to our operating companies for 3G mobile telecommunications services in Hong Kong and 2G mobile telecommunications services in Hong Kong and Macau, were passed through to us. For a further description of the shareholders' agreements, see "Information on the Company—Business Overview—Hong Kong and Macau mobile telecommunications business—Ownership."
- The Hutchison Whampoa group's rights and obligations under a consolidation agreement between IndusInd Telecom Network Limited (a joint venture of our group that is part of the Hinduja group, at the time holding direct interests in mobile telecommunication operating companies in India), HTI 1993 Holdings and Usha Martin Telematics Limited, or Usha Martin Telematics (which were consolidated into our accounts), were passed through to us. This agreement is no longer in effect.
- The Hutchison Whampoa group's rights and obligations under a consolidation agreement between Essar Teleholdings, HTI 1993 Holdings and Usha Martin Telematics, including the obligation to provide credit support under the consolidation agreement, the corresponding subrogation rights in respect of a share pledge and the rights and obligations in respect of put and call options exercisable upon default of repayment by Essar Teleholdings of certain third party loans, were passed through to us. Pursuant to the pass through agreement, we agreed to indemnify Hutchison Whampoa against all claims and liabilities of Hutchison Whampoa in connection with the provision by Hutchison Whampoa of any credit support for loans to Essar Teleholdings under the consolidation agreement. The pass through agreement was amended and supplemented by two supplemental pass through agreements dated December 30, 2004 and June 30, 2005, respectively, to extend the indemnity to Hutchison Whampoa in connection with the provision of the credit support by Hutchison Whampoa. All payment obligations under the credit facilities to which Hutchison Whampoa was obligated to provide credit support were settled by Essar Teleholdings in December 2005, as a result of which Hutchison Whampoa's credit support obligations and our related indemnity obligation expired. This agreement is no longer in effect.

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Non-competition agreement

We have entered into a non-competition agreement with Hutchison Whampoa to maintain a clear delineation of our respective businesses going forward following the restructuring, principally on a geographical basis. The agreement delineates each party's territory for the purpose of implementing the non-competition restrictions. Hutchison Whampoa's territory comprises Western Europe (defined as the European Union prior to its enlargement in 2004, Vatican City, San Marino, the Channel Islands, Monaco, Switzerland, Norway, Greenland and Liechtenstein), Australia, New Zealand, the United States, Canada, and Argentina (unless and until such time as we exercise our option to acquire the Hutchison Whampoa group's interest in Hutchison Argentina). Our territory comprises all areas of the world outside the Hutchison Whampoa territory. In connection with our sale of CGP Investments Holdings to Vodafone, we agreed with Vodafone that for a period of three years from completion of the sale, we would not directly or indirectly carry on or become economically interested in, within India, any business carried on in competition with the business as carried on by Hutchison Essar, including the provision of telecommunications services for voice, data or video and/or the establishment and operation or maintenance in India of related infrastructure, facilities or equipment. Specifically excluded from those restrictions, among other things, were operating call centre or data centre services, establishing, owning or leasing, and maintaining and operating, international telecommunications capacity of whatever transmission media outside India and up to any related landing points in India and providing India mobile roaming services to our international customers through agreements with telecommunications operators.

Under our non-competition agreement with Hutchison Whampoa, no party may, without the other party's prior consent, provide telecommunications services for voice, data and/or video in the other party's territory, whether between fixed locations and/or moving locations, whether by wireline or wireless means, or establish, operate and maintain related facilities, whether by wireline or wireless means, including conducting the business of reselling such facilities and services. The activities which the parties are free to perform in the other's territory include limited business activities and portfolio investments.

Each party has the right of first refusal over any new opportunity to conduct the restricted business in its own territory. Prior consent of the other party is required to pursue any new opportunity to conduct the restricted business in the other party's territory refused to be pursued by such party. Any decision to refuse any new opportunity or to consent to a party pursuing the opportunity is subject to the approval of the board of directors of the other party sought in accordance with all applicable laws, rules, regulations and requirements under such other party's constitutional documents. Where the board of directors is required to determine matters under the non-competition agreement, these matters will be referred to the independent non-executive directors who will make their determination on a majority vote of those directors.

These restrictions will terminate one year after Hutchison Whampoa ceases to control, directly or indirectly, more than 30% of our issued ordinary share capital, unless upon the cessation of Hutchison Whampoa's interests, another party controls, directly or indirectly, 30% or more of our issued ordinary share capital, in which case the restrictions will terminate immediately upon Hutchison Whampoa's cessation of interests. The restrictions will also terminate on the date on which our shares and ADSs are no longer listed on any internationally recognized stock exchange (provided that such delisting is voluntary and at our instigation).

Reimbursement of underwriting commission and other costs and expenses.

We have agreed to reimburse Hutchison Telecommunications Investment an amount equal to the underwriting commissions deducted from the proceeds of the global offering which was completed in October 2004, and any costs and expenses (including any Hong Kong stamp duty) that may be incurred by Hutchison Telecommunications Investment and other associates of Hutchison Whampoa for the purpose of the restructuring and global offering of our shares that were completed in 2004. The total amount reimbursed was approximately HK\$329 million, and has been fully settled.

Option to purchase Hutchison Argentina

We entered into an option agreement dated September 17, 2004 with Ommaney Holdings Limited (formerly named Hutchison Telecommunications Limited), or Ommaney Holdings, under which Ommaney Holdings has granted us the right to require the sale to us, or another entity nominated by us, of all of the Hutchison Whampoa group's interest in Hutchison Argentina and any rights and obligations of any company within the Hutchison Whampoa group relating to Hutchison Argentina. The option has been granted to us at no cost.

Ommaney Holdings has undertaken not to dispose of its interests in Hutchison Argentina for a period of three years from the date of the agreement subject to its right to wind up or close the Argentine operations. For the first three years from the date of the option agreement, the option is exercisable at a price representing Ommaney Holdings' cost of investment, plus interest of 8.336% per annum. This three year period is intended to offer us sufficient time to assess whether the Argentine operations, which are currently limited principally to operating a wireless local loop service in the greater Buenos Aires area, are able to align their business strategy into ours in a manner which would make them attractive assets to add to our investment portfolio (wireless local telephony, as distinct from full mobile telecommunications services, operates within the short range of a single base station only and is not something which is in line with our group's business) and be consistent with the principle of geographical business delineation adopted under our non-competition agreement with Hutchison Whampoa.

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After the period of the first three years, the option will be exercisable at a price representing Ommaney Holdings' cost of investment, plus interest of 8.336% per annum except where Ommaney Holdings receives an offer from a bona fide third party after the three-year moratorium period for the relevant interests held by it in Hutchison Argentina. In such event, we shall have, for so long as Hutchison Whampoa holds at least 30% of our issued share capital, a right of first refusal to purchase all of the Hutchison Whampoa group's interest in Hutchison Argentina by exercising the option at the same price or, where the third party offers non-cash consideration, a comparable cash amount and on similar terms offered by the third party.

Trust deed between Whampoa Holdings Limited and Ommaney Holdings

Our indirect wholly-owned subsidiary, Whampoa Holdings Limited, entered into a transfer and declaration of trust deed with Ommaney Holdings on September 17, 2004 whereby:

- Whampoa Holdings Limited transferred to Ommaney Holdings the beneficial interest in shares in Hutchison Argentina representing 90.05% of the issued share capital of, and its rights in respect of irrevocable capital contributions to, this company;
- Whampoa Holdings Limited declared that it held the legal interest in shares in, and irrevocable capital contribution made to, Hutchison Argentina and all rights and obligations relating to Hutchison Argentina, on trust for us; and
- Ommaney Holdings undertook to indemnify Whampoa Holdings Limited in respect of any losses, damages or liabilities, and all reasonable costs and expenses arising from or incurred or suffered by it as a result of holding rights and obligations as nominee for, and acting on the instruction of Ommaney Holdings (other than losses, damages, liabilities, costs or expenses arising from or incurred or suffered as a result of Whampoa Holdings Limited's deliberate or negligent acts or omissions as nominee for Ommaney Holdings).

As nominee for Ommaney Holdings, Whampoa Holdings Limited may be required to transfer to Ommaney Holdings (or its nominee), or otherwise deal with, the shares and irrevocable capital contributions in Hutchison Argentina and all of our interests in and rights and obligations relating to Hutchison Argentina, as Ommaney Holdings may direct. No consideration would be payable to Whampoa Holdings Limited in respect of any such transaction.

Registration rights agreement

We entered into a registration rights agreement on September 24, 2004 with Cheung Kong Holdings, which then held 49.97% of Hutchison Whampoa, and Hutchison Telecommunications Investment, an indirect wholly-owned subsidiary of Hutchison Whampoa. Under the registration rights agreement, either of Cheung Kong Holdings and Hutchison Telecommunications Investment may from time to time but commencing six months after our listing on the Hong Kong Stock Exchange make a written request to us (i) for registration of all or part of the shares held by such shareholder or its affiliates with the U.S. Securities and Exchange Commission for offer and sale to the public under a registration statement (within the meaning of the Securities Act), or (ii) to cause all or part of the shares held by such shareholder or its affiliates to be listed in any jurisdiction outside the United States wherein such shares are already listed.

In conjunction with the sale of shares representing approximately 19.3% of our then-issued share capital by the Hutchison Whampoa group to Orascom Holding, we entered into an amended and restated registration rights agreement on December 21, 2005 with Hutchison Telecommunications Investment, Cheung Kong Holdings and Orascom Telecom Eurasia Limited, or Orascom Eurasia, a subsidiary of Orascom Holding, which replaced the existing registration rights agreement and extended the registration rights previously granted to Hutchison Telecommunications Investment and Cheung Kong Holdings to Orascom Eurasia.

The amended and restated registration rights agreement will terminate upon the earlier of the date when all registrable securities have been sold pursuant to a registration statement or the date as of which each of the parties to the agreement are permitted to sell their shares under Rule 144(k) under the Securities Act. In addition, the amended and restated registration rights agreement will terminate with respect to Hutchison Telecommunications Investment and Cheung Kong Holdings, respectively, on the date that the number of each class of registrable securities beneficially owned by that shareholder is less than 1% of all of our ordinary shares that are then issued and outstanding. The amended and restated registration rights agreement will terminate with respect to Orascom Eurasia on the date that Orascom Eurasia holds less than approximately 12% of all of our ordinary shares that are then issued and outstanding.

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As of the date of this annual report, none of Cheung Kong Holdings, Hutchison Telecommunications Investment or Orascom Eurasia has made any written request to us under the agreement.

Intellectual property

We conduct our businesses using trademarks with various forms of the Hutchison name (including, but not limited to, *HGC, Hutchison Global Communications, Hutchison Telecom, Hutchison, Hutch and 3*), as well as domain names incorporating some or all of these trademarks.

We have entered into an intellectual property rights framework agreement with Hutchison International, a subsidiary of Hutchison Whampoa, pursuant to which Hutchison International shall procure certain domain names, trademarks (including but not limited to **3** and *Hutch*) and other intellectual property rights owned by or licensed to the Hutchison Whampoa group in relation to the telecommunications business and operations of the relevant members of our group are licensed to our group. Such intellectual property rights are and will continue to be licensed to members of our group on a royalty-free basis until the relevant change of control provisions as may be agreed between the relevant members of our group and the Hutchison Whampoa group are triggered. The relevant member of our group will bear the appropriate proportion of the total external and internal costs and expenses in connection with brand management and support. In 2006, the costs and expenses charged in connection with the relevant intellectual property rights amounted to approximately HK\$2 million (US\$0.3 million).

Hutchison Essar and its subsidiaries have individually licensed the *Hutch* brand from Hutchison 3G Enterprises S.à r.l., or Hutchison 3G Enterprises. Under the license agreements between Hutchison 3G Enterprises and the Hutchison Essar companies, if the aggregate direct and indirect shareholding of Hutchison Whampoa or any one or more subsidiaries of Hutchison Whampoa in a licensee falls below threshold levels of 45%, 40%, 30% and 20%, then upon falling below each such threshold, Hutchison 3G Enterprises is, for a period of 12 months, entitled to terminate the brand license. Following the sale on December 21, 2005 of shares representing approximately 19.3% of our then-issued share capital by the Hutchison Whampoa group to Orascom Holding, Hutchison Whampoa's aggregate direct and indirect shareholding in Hutchison Essar and its subsidiaries fell below 40%, thus entitling Hutchison 3G Enterprises to terminate the license agreements with those at any time prior to December 21, 2006. No notice of termination was received from Hutchison 3G Enterprises. Hutchison 3G Enterprises has agreed to permit Hutchison Essar to use the *Hutch* brand for up to three years after the completion of our sale of CGP Investments Holdings to Vodafone.

Provision of data center services

Our subsidiary, Hutchison GlobalCentre Limited, or Hutchison GlobalCentre, currently provides, and will continue to provide, data center services to members of the Hutchison Whampoa group. Such data center services include data center facilities (such as power supply, telecommunications connectivity, air-conditioning, fire prevention and security systems), hardware and software management and co-location services. The relevant member of the Hutchison Whampoa group is required to pay Hutchison GlobalCentre monthly charges in advance for subscription and in arrears for usage of such data center services. The amount of monthly charges and the initial term of duration for the provision of such data center services, which are automatically renewable for successive additional terms unless either party terminates by notification, are separately determined and agreed between the relevant member of the Hutchison Whampoa group and Hutchison GlobalCentre in individual service orders, which are executed as and when such data center services are required. In 2006, the aggregate charges for provision of such services amounted to approximately HK\$19 million (US\$2.4 million).

Lease and license arrangements

Members of our group, as lessees or licensees, have entered into, and may in the future from time to time renew and enter into, various lease and license arrangements with members of the Hutchison Whampoa group, as landlords or licensors. The lease and license arrangements are in respect of building spaces and other premises for use by members of our group as offices or for other business purposes. In 2006, the aggregate lease and licensing fees paid by the relevant member of our group under these arrangements amounted to approximately HK\$57 million (US\$7.3 million).

Roaming arrangements

Members of our group have entered into agreements with members of the Hutchison Whampoa group in respect of roaming arrangements, whereby customers of members of our group and the Hutchison Whampoa group may roam on each other's networks while traveling abroad. In 2006, the total charges for the provision of roaming services, after set-off among the parties, amounted to approximately HK\$3 million (US\$0.4 million).

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Sharing of services

Pursuant to an agreement dated September 24, 2004 between us and Hutchison International, members of our group have been sharing, and will continue to share, with the Hutchison Whampoa group services including, among others, legal and regulatory services, company secretarial support services, tax and internal audit services, shared use of accounting software system and related services, participation in the Hutchison Whampoa group's pension, medical and insurance plans, participation in the Hutchison Whampoa group's procurement projects with third-party vendors/suppliers, other staff benefits and staff training services, company functions and activities and operation advisory and support services. Our group will pay a fee to the Hutchison Whampoa group for the provision of such services, which is payable quarterly in arrears and settled within 30 days after receipt of a written invoice from the relevant member of the Hutchison Whampoa group to the relevant member of our group. This agreement expired on December 31, 2006. On November 30, 2006, we entered into a new agreement with Hutchison International pursuant to which certain IT-related services provided under the September 24, 2004 agreement would be provided under the new agreement with effect from January 1, 2006 for a period of one year with automatic renewals on each anniversary for three successive one-year periods unless terminated by either party. On February 26, 2007, we entered into a new agreement with Hutchison International in place of the September 24, 2004 agreement except for certain IT-related services which were covered by the November 30, 2006 agreement. The new agreement went into effect from January 1, 2007 for a term of three years unless terminated by either party. In 2006, the aggregate fees paid by our group for the provision of such services amounted to approximately HK\$29 million (US\$3.7 million).

Bill collection service

Under an agreement dated February 26, 2004, between A.S. Watson Group (HK) Limited, or Watson, a subsidiary of Hutchison Whampoa, and Hutchison Telecom as duly authorized agent of our subsidiaries Hutchison Telephone and Hutchison 3GHK Services, Watson was appointed as an agent of Hutchison Telecom to receive, at retail outlets operated by Watson in Hong Kong, customer payments for services rendered by Hutchison Telephone and Hutchison 3GHK Services. The agreement commenced on February 26, 2004.

Pursuant to a reorganization to streamline our Hong Kong mobile telecommunications business, all mobile telecommunications businesses in Hong Kong were effectively transferred to Hutchison Telephone as of July 1, 2005. Consequently all agreements previously entered into by Hutchison 3GHK Services were transferred to Hutchison Telephone and all subsisting arrangements relating to Hutchison 3GHK Services were taken over by Hutchison Telephone as of that transfer date.

Under an agreement dated November 1, 2002, between Watson and Hutchison Global Communications, as amended, Watson was appointed as an agent for Hutchison Global Communications and its subsidiaries to receive, at retail outlets operated by Watson in Hong Kong, customer payments for services rendered by Hutchison Global Communications and its subsidiaries. The agreement commenced on November 1, 2002.

Hutchison Telecom and Hutchison Global Communications, under their respective bill collection services agreements, are required to pay to Watson an agreed amount of commission per transaction, depending on the number of transactions processed per month, subject to an agreed minimum amount. Each of Hutchison Telecom and Hutchison Global Communications is also responsible for paying any Easy Payment System, or EPS, which is a payment system in Hong Kong equivalent to cash, credit card or *Octopus* card charges at the rates notified by Watson. In 2006, the aggregate commissions paid by our group for the provision of these services amounted to approximately HK\$11 million (US\$1.4 million).

Supply of mobile phone equipment and accessories by Hutchison Harbour Ring Limited and/or its subsidiaries.

Hutchison Harbour Ring and its subsidiaries, which are members of the Hutchison Whampoa group, have been supplying handset batteries, chargers, bluetooth accessories and other mobile phone accessories to Hutchison 3GHK Services and Hutchison Telephone. In 2006, the aggregate purchase price paid for the equipment and accessories supplied was approximately HK\$4 million (US\$0.5 million).

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Dealership services

Under an agreement dated May 23, 1998 with Watson and another agreement dated June 21, 2004 with Watson's The Chemist Limited, a subsidiary of Watson, both as supplemented and/or amended from time to time, Hutchison Telecom, as duly authorized agent of Hutchison Telephone and of Hutchison 3GHK Services, sells 2G and 3G handsets and/or telecommunications services at the Fortress and Watson retail outlets operated by Watson in Hong Kong. Under these retail services agreements, Watson collects the handset price and service fee prepayment from retail customers, at the rates as determined by Hutchison Telecom, and is required to pay such amount to Hutchison Telecom on a weekly accrual basis. Hutchison Telecom is required to pay to Watson commissions per subscription, subject to minimum amount per outlet per month.

Under an agreement dated May 27, 2004, between Watson and Hutchison 3GHK Services, Watson was appointed as non-exclusive dealer for Hutchison 3GHK Services for sale at retail outlets operated by Fortress in Hong Kong of 3G handsets and/or telecommunications services provided by Hutchison 3GHK Services. Under this 3G dealership services agreement, Watson collects the handset price and service fee prepayment from retail customers, at the rates as determined by Hutchison 3GHK Services. Watson is required to pay such amount to Hutchison 3GHK Services after deducting its commission per subscription. This agreement commenced on March 3, 2004. This agreement was subsequently transferred by Hutchison 3GHK to Hutchison Telephone as of July 1, 2005 as part of a reorganization to streamline our Hong Kong mobile telecommunications business.

Under a referral program that went into effect as of October 25, 2005, Fortress was appointed as a promoter of Hutchison Telephone's 2G mobile telecommunications services to its customers. Under this program, Watson is entitled to a commission for each successful service subscription referral to Hutchison Telephone.

In 2006, the aggregate commissions paid by our group for the provision of these services under the retail services agreements amounted to approximately HK\$21 million (US\$2.7 million).

Global procurement services

Various members of our group have separately entered into cost sharing agreements with the Hutchison Whampoa group pursuant to which members of the Hutchison Whampoa group and members of our group together join in global procurement and development projects for the acquisition and development of information technology platforms and software solutions and applications, hardware, content and other services in connection with the roll-out and ongoing operation of the business of members of our group. Participation in a particular cost sharing activity is at the discretion of each member of our group which has entered into a cost sharing arrangement. In connection with the performance of obligations of the members of our group under some of the underlying contracts in relation to the global procurement activities, members of the Hutchison Whampoa group have provided guarantees in favor of counterparties thereunder. The relevant members of our group will bear the appropriate proportion of the total external and internal costs and expenses incurred in connection with such joint procurement activities. In addition, the relevant members of our group pay a guarantee fee (where the Hutchison Whampoa group has provided a guarantee) and a management fee to the Hutchison Whampoa group at normal commercial rates. In 2006, the aggregate costs, expenses, guarantee fees and management fees paid by the relevant member of our group under these cost sharing agreements amounted to approximately HK\$26 million (US\$3.3 million).

Handset supply agreements

On March 27, 2007, each of Hutchison Telephone and Partner entered into handset supply agreements with H3G Procurement Services S.a r.l, or H3G Procurement, a wholly-owned subsidiary of Hutchison Whampoa, pursuant to which each of Hutchison Telephone and Partner may elect to purchase handsets or other devices related to their respective 3G businesses. Any offer of handsets or other devices by H3G Procurement Services to Hutchison Telephone or Partner will be on substantially the same terms and conditions as the terms and conditions offered by the vendors to H3G Procurement Services, other than as to unit prices. Neither Hutchison Telephone or Partner is obligated to purchase any handsets under the agreements with H3G Procurement Services. The term of each agreement is an initial period of three years beginning from January 1, 2007 and thereafter automatically renewed for three successive periods of three years each unless terminated earlier by either party.

Provision of telecommunications and Internet services

Members of our group provide local and international fixed-line telecommunications services, Internet access bandwidth with value-added services, and Internet and web-hosting services to members of the Hutchison Whampoa group. In 2006, the fees charged by our group for the provision of such services amounted to approximately HK\$68 million (US\$8.7 million).

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Provision of mobile telecommunications services

Members of our group provide, mobile telecommunications services, including IDD and roaming services and other value-added services, to members of the Hutchison Whampoa group. The Hutchison Whampoa group is required to pay charges in advance for subscription on a monthly basis and charges in arrears for usage on a monthly basis, pursuant to invoices issued from our group. The provision of such services is terminable by either party at any time by giving 14 days' prior written notice. In 2006, the fees charged by our group for the provision of such services amounted to approximately HK\$22 million (US\$2.8 million).

Disposal of Vanda IT Solutions

In July 2006, we sold our wholly-owned subsidiary Vanda IT Solutions, which provided information technology solutions, and loans that we had extended to Vanda IT Solutions and its subsidiaries, to a wholly-owned subsidiary of our largest shareholder, Hutchison Whampoa, for a total cash consideration of HK\$105 million (US\$13.5 million), subject to adjustments. The purchase price was determined after arms-length negotiations. We continue to provide guarantees in respect of the performance of subsidiaries of Vanda IT Solutions under several third-party financing agreements. We have been counter-indemnified in full for these guarantees by members of the Hutchison Whampoa group.

Financial assistance by the Hutchison Whampoa group to our group

Loans

Historically, our network build-out and operating costs have been financed in part through shareholder loans from the Hutchison Whampoa group. In connection with our restructuring, in September 2004 we issued shares to capitalize outstanding loans from Hutchison Whampoa group companies in the net aggregate amount of HK\$20,869 million.

Immediately following the restructuring, the total amount of outstanding debt owed by us to the Hutchison Whampoa group was approximately HK\$375 million, which was incurred under a back-to-back loan facility of HK\$1,000 million granted by Hutchison International in favor of Hutchison Global Communications Holdings. Under this facility, we assumed the obligations of Hutchison International to provide up to HK\$1,000 million to Hutchison Global Communications Holdings, and if a draw is made on this facility by Hutchison Global Communications Holdings, then Hutchison International has agreed to provide a facility to us in the same amount and with the same tenor to our group. All outstanding amounts owed by us to Hutchison International under the loan facility were repaid in full in December 2004.

Guarantees and letters of comfort

Hutchison Whampoa, Hutchison International and Ommaney Holdings have guaranteed outstanding debts owed by our subsidiaries to lenders since 1998. As of December 31, 2006, total borrowings of HK\$8,042 million (US\$1,034 million) were guaranteed by members of the Hutchison Whampoa group and other related companies in respect of loans to our Thai operations. We provide a counter indemnity to Hutchison Whampoa, Hutchison International and Ommaney Holdings in respect of these guarantees.

As security in support of a series of equipment sale and leaseback transactions entered into by Hutchison Telephone in 1998, Hutchison Whampoa issued guarantees in favor of Hutchison Telephone's counterparties under those transactions in respect of performance and payment obligations.

Hutchison International has provided letters of comfort under which it agrees to maintain specified shareholdings in several of our Hong Kong subsidiaries in connection with credit facilities provided to them. These facilities were subsequently fully refinanced by a HK\$6 billion three-year senior secured revolving credit facility provided by a group of international banks to Hutchison Telephone and other subsidiaries of ours in May 2005. This facility was not supported by any letters of comfort from any member of the Hutchison Whampoa group.

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We have entered into a fee agreement with Hutchison Whampoa, pursuant to which we agree to pay, or will procure that relevant members of our group will pay, fees for the issuance of guarantees and the provision of indemnities and security by Hutchison Whampoa or its subsidiaries, in respect of third-party borrowings of such relevant members of our group. The fees are charged at normal commercial rates. We have also entered into a counter-indemnity agreement with Hutchison Whampoa, under which we agree to indemnify Hutchison Whampoa or the relevant member of the Hutchison Whampoa group, as the case may be, against any liability incurred by Hutchison Whampoa or any such member of the Hutchison Whampoa group under the guarantees, indemnities and security provided in connection with our group's third-party borrowings. The total amount of these fees paid by us to the Hutchison Whampoa group in 2006 was HK\$95 million (US\$12.2 million).

Privatization of Hutchison Global Communications Holdings

In connection with the privatization of Hutchison Global Communications Holdings, we and Hutchison Telecommunications Investment agreed that to the extent that any of the holders of Hutchison Global Communications Holdings shares or share options were deemed to be "connected persons" of our company or of Hutchison Whampoa under the listing rules of the Hong Kong Stock Exchange, and those connected persons elected to receive shares of our company as consideration for their Hutchison Global Communications Holdings shares or share options, then Hutchison Telecommunications Investment would transfer such number of our shares to them so as to satisfy their election. In turn, we would assume an indebtedness to Hutchison Telecommunications Investment in the amount of the value of the shares being transferred together with any stamp duty payable in connection with the transfer.

Pursuant to this arrangement, on August 5, 2005, Hutchison Telecommunications Investment transferred on our behalf a total of 60,371,099 shares of our company held by it to the connected persons as consideration for those connected persons' Hutchison Global Communications Holdings shares and share options. As a result, we assumed an aggregate of approximately HK\$458.8 million of indebtedness to Hutchison Telecommunications Investment, which we repaid in full on August 8, 2005.

Acquisition of call center from the Hutchison Whampoa group

In January 2006, we entered into an agreement with HCCH, an indirect subsidiary of Hutchison Whampoa, to acquire the entire issued share capital of Hutchison Tele-Services, which, through its wholly owned subsidiary, 3 Global Services, operated a telecommunications call center in India. The total consideration was US\$14.2 million. The acquisition was completed in February 2006. Under the terms of the agreement, we granted HCCH a call option to purchase our shares of Hutchison Tele-Services, and HCCH granted us a put option to sell our shares of Hutchison Tele-Services. The India call center provides contact center services to Hutchison 3G UK Limited and Hutchison 3G Australia Pty Limited, both of which are subsidiaries of Hutchison Whampoa.

In September 2006, CGP Investments Holdings and HCCH amended the put and call options relating to the shares of Hutchison Tele-Services so that they related to the call center business of 3 Global Services rather than the shares of Hutchison Tele-Services. However, any options, subscription rights, pre-emptive rights or other similar rights held by 3 Global Services relating to the securities of Hutchison Essar, or any person with a direct or indirect interest in Hutchison Essar, were excluded from the business of 3 Global Services for purposes of the amended put and call options and would not be transferred to HCCH with the call center business. Because of the put and call arrangements that were in place in respect of Hutchison Tele-Service's shares and then amended to relate to the call center business of 3 Global Services, the financial results from the call center business of 3 Global Services were not incorporated into our 2006 accounts. In this regard, the total consideration paid for the acquisition of Hutchison Tele-Service of US\$14.2 million was recorded as a loan to HCCH and bears interest of LIBOR plus 1% per annum. The total interest income receivable from HCCH in 2006 was approximately HK\$6 million (US\$0.8 million). Hutchison Tele-Services and 3 Global Services are subsidiaries of CGP Investments Holdings and therefore were effectively acquired by Vodafone when Vodafone acquired CGP Investments Holdings from us in May 2007.

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Related party transactions with other shareholders

Orascom Holding acquired shares representing approximately 19.3% of our then-outstanding share capital from the Hutchison Whampoa group in December 2005. We have entered into various agreements with Orascom Holding and its subsidiaries as described below.

As described above under “—Related party transactions with Hutchison Whampoa—Registration Rights Agreement,” we entered into an amended and restated registration rights agreement on December 21, 2005 with Hutchison Telecommunications Investment, Cheung Kong Holdings and Orascom Eurasia that extended the registration rights previously granted to Hutchison Telecommunications Investment and Cheung Kong Holdings to Orascom Eurasia.

On December 21, 2005, we entered into a co-operation agreement with Orascom Holding, pursuant to the parties agreed to cooperate at all levels and make appropriate management team resources available from their respective organizations to achieve commercial, operational and technological synergies.

Related party transactions with associates

Until April 20, 2005, when it became our subsidiary, Partner was an unconsolidated company over which we had significant influence.

Financial support of Partner

As of December 31, 2004, 54,733,017 ordinary shares of Partner held by us were subject to a share pledges granted in favor of lenders to Partner under the terms of a loan facility amended and restated on December 31, 2002 provided to Partner. On April 14, 2005, the loan facility was terminated and all share pledges were released.

Relationship agreement with Partner’s shareholders

Under the terms of a restated relationship agreement that we entered into on April 20, 2005 with Elbit, Polar, Eurocom, Matav Investments, Matav Cable, and Tapuz, we have agreed to hold such number of shares of Partner as will be required to comply with the minimum founding shareholder percentage of 26% required under Partner’s license, less the 5% required to be held by Partner’s Israeli citizens and residents, which the Israeli shareholders that are party to the relationship agreement have agreed to hold. Under the restated relationship agreement, the Israeli shareholders who are party to the agreement are entitled to appoint 10% of the directors on Partner’s board of directors, which based on the current number of directors would mean they are entitled to appoint one director. In addition, to the extent required by applicable law or Partner’s license, we are obligated to vote our shares in each general meeting of Partner at which directors are elected to ensure that a majority of the directors of Partner are Israeli citizens or residents. Except for these requirements, obligation of the parties to vote for each other’s directorship nominations were eliminated. Provisions specifying shareholders’ rights to nominate the members of Partner’s executive committee, the chairman of Partner’s board of directors and Partner’s chief financial officer, and provisions restricting transfers of shares, were also eliminated. If a party to the relationship agreement commits certain events of default described in the agreement, that party may be required to offer its shares to the other parties on a pre-emptive basis. Events of default for this purpose include a breach of the relationship agreement that has a material adverse effect on Partner, and in the case of such breach, the purchase price at which the shares are to be sold will be at market value less a 17.5% discount.

Roaming arrangements with Western Wireless Corporation and its subsidiaries

Members of our group entered into agreements with Western Wireless and its subsidiaries in respect of roaming arrangements, whereby customers of members of our group and of the Western Wireless group may roam on each other’s networks while traveling abroad. Mr. John Stanton, an independent non-executive director of our company, was the chairman and chief executive officer of Western Wireless until 2005.

Agreements with directors

Our non-executive directors receive compensation in the form of directors’ fees and do not receive any other form of compensation, including upon termination. Our executive directors receive compensation in the form of salaries, discretionary bonuses, housing allowance, provision of company car, club membership, participation in our retirement scheme, medical coverage, life insurance and annual leave. We have entered into service contracts with our executive directors which may be terminated by either party giving written notice for periods of notice ranging from three to six months. None of these service contracts provide benefits to our executive directors upon termination. Under the arrangements currently in force, the aggregate remuneration payable to, and benefits in kind receivable by, our directors for the year ended December 31, 2006 were approximately HK\$45 million (US\$5.8 million). For a detailed discussion of the remuneration paid to our directors, see “Directors, Senior Management and Employees—Compensation.”

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As of June 15, 2007, options in respect of 27,000,000 of our ordinary shares have been granted in aggregate under our share option plan to persons who are currently directors or alternate directors of our company. All of these options were granted in August 2005. For a more detailed discussion of the share option plan, see “Directors, Senior Management and Employees—Share Ownership—Share Option Plan.”

C. Interests of Experts and Counsel

Not Applicable

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Consolidated Statements and Other Financial Information

See Item 18.

Legal Proceedings

We are involved in legal proceedings common in our industry and arising in the ordinary course of business. Other than as described below, we are not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our directors to be pending or threatened by or against us, that would have a material adverse effect on our financial condition and results of operations.

India

The sales tax authorities of each of the state governments where Hutchison Essar operates in India have instituted proceedings (or are in the process or completing their assessments with a view to doing so) against Hutchison Essar and its subsidiaries, claiming sales tax is payable in respect of revenues earned from airtime, activation fees and/or monthly subscription fees. The claims up to April 30, 2007 amounted to approximately INR788 million (US\$17.7 million). Hutchison Essar has been successful in obtaining court orders restraining any further action by the sales tax authorities pending a final ruling on this matter by the Supreme Court of India. The Supreme Court of India has issued a ruling on similar claims in favour of the telecommunication operators and Hutchison Essar considers that the sales authorities' claims are without foundation. Hutchison Essar had commenced proceedings to have all such claims dismissed on the basis of the Supreme Court's ruling. No provision was made by us in our 2006 accounts as we expected Hutchison Essar to be successful in its action for dismissal.

In December 2005, Hutchison Essar entered into a share purchase agreement with BPL Communications Limited, Capital Global Limited and Essar Teleholdings to acquire BPL Mumbai, a licensee for GSM mobile services in the Mumbai telecommunications license area. On July 31, 2006, Hutchison Essar issued a notice to the sellers of BPL Mumbai notifying them that all conditions precedent to completion had been fulfilled and satisfied or waived by Hutchison Essar and called for completion to take place on July 31, 2006. Hutchison Essar had already paid approximately INR 16,000 million (US\$359 million) to the sellers, representing substantially all of the purchase price. The sellers failed to undertake completion and on August 1, 2006, the sellers of BPL Mumbai issued a notice to Hutchison Essar purporting to terminate the share purchase agreement. Hutchison Essar subsequently obtained an injunction restraining the sellers of BPL Mumbai from selling or otherwise dealing in the shares of BPL Mumbai until four weeks after constitution of an arbitration panel. The arbitration panel was constituted as of February 5, 2007 and extended the injunction pending its review of the dispute.

On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries. Accordingly, any rights or liabilities arising from a final determination on the sales tax and BPL Mumbai proceedings will not accrue to us.

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On March 7, 2007 we received a copy of a petition that had been filed by Telecom Watchdog, an Indian non-governmental organization, with the High Court of Delhi in India naming the Indian government, us, Hutchison Essar, and various other Indian parties as respondents. The petition alleged, among other things, that by virtue of our arrangements with certain Indian shareholders of Hutchison Essar, our foreign shareholding in Hutchison Essar was in breach of the Indian regulations governing foreign direct investment. The petition also alleged that we had entered into arrangements with respect to certain Indian shareholders of Hutchison Essar which were *benami* transactions, meaning they were allegedly transactions in which property is transferred to one person for a consideration paid or provided by another person, and therefore prohibited under Indian law. The petition sought orders of the court 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 foreign direct investment regulations be confiscated. On March 9, 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 and directed the authorities to consider the issues raised in the petition as well. The court also declined to require any of the respondents, including us and Hutchison Essar, to respond to the petition.

Subsequent to completion of the sale to Vodafone of CGP Investments Holdings, after the Indian governmental authorities had granted approval of the sale on certain conditions, Telecom Watchdog has sought to revive the petition principally on the ground that it was not satisfied with the decision of the Indian governmental authorities that the shareholding arrangements with respect to certain Indian shareholders of Hutchison Essar were not *benami* transactions. On May 28, 2007, the court issued notice to all the respondents in the petition to respond within four weeks. The court set a hearing date of August 9, 2007, leaving it open for the respondents to submit arguments as to why the petition should not be revived and should be rejected at the outset. The court also granted permission to Telecom Watchdog to amend the petition in view of the decision of the Indian governmental authorities on the issues raised in the petition subsequent to the original petition being filed. We consider the petition to be without merit and will take all necessary actions to vigorously defend the allegations made against us.

Dividend Distributions

We currently do not have a dividend policy and have not previously paid any dividends on our ordinary shares. On February 22, 2007, we announced that we intend to establish a dividend policy which will be announced when we announce our interim results for the six months ending June 30, 2007.

B. Significant Changes

The following significant changes have occurred since December 31, 2006:

- In January 2007, Partner was granted a license for the provision of domestic fixed-line telecommunications services in Israel.
- Also in January 2007, we launched mobile telecommunications services in Vietnam under the brand name "HT Mobile."
- In March 2007, we launched mobile telecommunications services in Indonesia under the "3" brand.
- On May 8, 2007, we completed the sale to a wholly-owned subsidiary of Vodafone of our entire interest in CGP Investments Holdings, a company which held all of our direct and indirect equity and loan interests in our Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries.
- On May 22, 2007, we declared a special dividend to shareholders equal to HK\$6.75 (US\$0.87) per share, or approximately HK\$32,230 million (US\$4,143 million) in aggregate, payable on June 29, 2007.
- We were issued a 3G license for Macau with effect from June 5, 2007.

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The following tables set forth the high and low sales prices per share of our ordinary shares listed on the Hong Kong Stock Exchange and the high and low prices per share of our American Depositary Shares (each representing 15 of our ordinary shares) listed on the New York Stock Exchange for the periods specified.

	HIGH		LOW	
	Ordinary Shares (HK\$)	ADs (US\$)	Ordinary Shares (HK\$)	ADs (US\$)
2004:				
Fourth Quarter	7.10	13.58	5.20	9.85
2005:				
First Quarter	8.80	16.40	6.05	12.25
Second Quarter	8.10	15.65	6.60	13.15
Third Quarter	11.50	22.06	7.55	14.50
Fourth Quarter	11.85	22.25	9.35	18.52
2006:				
First Quarter	16.00	26.05	10.60	21.01
Second Quarter	15.20	28.99	10.60	20.71
Third Quarter	14.10	26.97	11.40	22.27
Fourth Quarter	20.25	38.74	13.46	26.07
2007:				
First Quarter	20.85	43.00	14.52	27.56
December 2006	20.25	38.74	16.52	32.55
January 2007	20.85	43.00	17.80	35.37
February 2007	19.30	37.26	16.00	30.98
March 2007	16.48	31.55	14.52	27.56
April 2007	16.38	32.09	15.10	29.30
May 2007	17.40	33.18	15.68	30.00

B. Plan of Distribution

Not applicable

C. Markets

Our ordinary shares have been listed on the Hong Kong Stock Exchange under the code number "2332" since October 15, 2004. Our ADs, each representing 15 of our ordinary shares, have been listed on the New York Stock Exchange under the symbol "HTX" since October 14, 2004.

D. Selling Shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the Issue

Not applicable

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable

B. Memorandum and Articles of Association

Our company is registered in the Cayman Islands (company number CT-133883). Set forth below is a brief summary of certain provisions of our amended and restated Memorandum and Articles of Association adopted on September 3, 2004, as amended on May 5, 2005 and May 8, 2007. This summary does not purport to be complete and is qualified in its entirety by reference to our Memorandum and Articles of Association, which are filed as Exhibits 1.1 and 1.2, respectively, to this annual report on Form 20-F.

Objects

Our objects are detailed in the Section 3 of our amended and restated Memorandum of Association. Typical of companies registered in the Cayman Islands, our objects are unrestricted and include, without limitation, to act and to perform all the functions of a holding company in all its branches and to co-ordinate the policy and administration of any subsidiary company, and to acquire and hold shares, stock and other forms of securities instruments, and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof.

Directors

A director may not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which such director, or any of his associates, is materially interested. However, this prohibition shall not apply to any of the following matters:

- any contract or arrangement for the giving by us or any of our subsidiaries to that director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of us or any of our subsidiaries;
- any contract or arrangement for the giving by us or any of our subsidiaries of any security or indemnity to a third party in respect of a debt or obligation of ours or any of our subsidiaries for which the director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- any contract or arrangement concerning an offer of our shares or debentures or other securities by us or any other company which we may promote or be interested in for subscription or purchase, where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of our shares or debentures or other securities or those of any of our subsidiaries by virtue only of his/their interest in our shares or debentures or other securities or those of any of our subsidiaries;
- any contract or arrangement concerning any other company in which the director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the director and/or his associate(s) is/are beneficially interested in five percent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to directors, and/or their associates and our employees or those of any of our subsidiaries and does not provide in respect of any director, or his associate(s), as such any privilege or advantage not accorded to the employees to which that scheme or fund relates.

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A quorum of independent directors is not required in order for a director to vote compensation to himself or any other member of the board of directors.

Our directors may exercise all the powers to raise or borrow money, to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and, subject to the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of ours or of any third party. The borrowing powers, in common with our articles in general, can be varied with the sanction of a special resolution.

Directors are not required to retire at a particular age. Directors are not required to beneficially own our shares.

Rights, Preferences, Restrictions Attaching to Shares and Changing the Rights of Shareholders

We are authorized to issue non-voting redeemable preference shares. However, currently, we only have ordinary shares outstanding.

Dividends

Subject to the Companies Law, in a general meeting we may declare dividends in any currency, but no dividends shall exceed the amount recommended by our directors. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits that our directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share, and all dividends shall be apportioned and paid pro rata according to the amounts paid upon the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares half-yearly or on any other dates, whenever our position, in the opinion of the directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to us on account of calls or otherwise.

No dividend or other monies payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that: (i) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our members entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment; or (ii) the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the directors may think fit. The directors may also, with the sanction of our members in general meeting, resolve in respect of any particular dividend that, notwithstanding the foregoing, it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right of members to elect to receive that dividend in cash in lieu of such an allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of those shares, and shall be sent at his or their risk. Payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

Any dividend unclaimed after a period of six years from the date of declaration of the dividend may be forfeited and, if so forfeited, shall revert to us.

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Whenever our directors or the members in general meeting have resolved that a dividend be paid or declared, the directors may further resolve that the dividend be satisfied by direct payment or satisfaction wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, the directors may settle it as they think expedient and, in particular, may issue fractional certificates or authorize any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for distribution purposes of any such specific assets and may determine that cash payments shall be made to any of our members upon the footing of the value so fixed in order to adjust the rights of the parties and may vest any such specific assets in trustees as may seem expedient to the directors.

Voting Rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting every member who is present in person or by proxy (or, in the case of a member that is a corporation, by its duly authorized representative) shall have one vote, and on a poll every member present in person or by proxy (or, in the case of a member that is a corporation, by its duly appointed representative) shall have one vote for each share of which that member is the holder.

No member will be entitled to vote or be reckoned in a quorum, in respect of any share, unless that member is registered as our shareholder at the applicable record date for that meeting and all calls or installments due by that member to us have been paid.

If a recognized clearing house (or its nominee(s)) is our member, it may authorize the person or persons it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of members provided that, if more than one person is so authorized, the authorization must specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if the person were the registered holder of our shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Members of our board of directors stand for reelection at staggered intervals. One-third of our directors (or, if their number is not a multiple of three, the number nearest to but not less than one-third), or any other fraction that may be required under the listing rules of the Hong Kong Stock Exchange or other applicable rules, are subject to retirement from office by rotation at each annual general meeting. Two of our directors retired by rotation and one of our directors who was appointed by our board in February 2007 also retired at our annual general meeting held on May 8, 2007. All of them were then re-elected at the same annual general meeting.

There are no restrictions imposed by Cayman Islands law or our articles of association on the rights of our members to hold or vote their shares by reason of where they reside. Our articles of association, however, provide that we are not obliged, when making or granting any allotment of, offer of, option over or disposal of shares or issuing shares in satisfaction wholly or in part of a dividend declared, to make or make available any such allotment, offer, option or shares to our members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in our opinion, be unlawful or impracticable.

Provisions discriminating against existing or prospective holders of shares as a result of such shareholder owning a substantial number of shares

Our articles of association provide that if our directors become aware that any person directly or indirectly has or acquires an interest in a number of shares that would or may, in the opinion of our directors, require a review or approval under, or which would or may result in any subsidiary or affiliate (being any entity in which we directly or indirectly hold 5% or more of the issued share capital) of ours being in breach or in default of, any applicable law, regulation or license, permit, consent or privilege held or enjoyed by any such subsidiary or affiliate, or of any requirement of any governmental or regulatory authority, our directors have the discretion to serve a notice upon the holder of those shares:

- specifying which of the shareholder's shares in our company will be affected and the name of the entity affected;
- suspending the shareholder's right to exercise the voting rights attaching to the affected shares in which the shareholder has an interest in respect of any resolution at any general meeting of our company that concerns the business, operations, management or activities or any other matters in relation to any affected entity, including the appointment of a director or the managing director of any affected subsidiary or affiliate; and/or
- restricting the director(s) appointed by or at the direction of that shareholder, if any, to our board of directors from voting on any resolution or matter that concerns the activities of any affected entity or appointment of a director or the managing director of any affected entity.

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Any suspension or restriction will be to the minimum extent (in terms of period of suspension, voting rights suspended and number of shares affected) that is, in the opinion of our directors, required in order to prevent a breach or default, or in connection with such review or approval.

The notice that the directors provide to the holder of the affected shares may also direct the holder of those shares to provide us with information and documents that we may require in order to enable us or any affected subsidiary or affiliate to obtain the necessary approval that may be required in order to enable that shareholder to continue to hold the affected shares without the breach or default occurring or continuing.

Apart from the voting rights being suspended in the manner described above, all other rights attached to these disenfranchised shares shall not be affected and shall remain exercisable by the shareholder holding these disenfranchised shares. The notice is effective in respect of the disenfranchised shares only and does not apply to any other shares held by that shareholder.

Alteration of Capital

We may from time to time by ordinary resolution:

- increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;
- sub-divide our shares or any of them into shares of a smaller amount than is fixed by our memorandum and articles of association, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the share resulting from that subdivision, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with, the others as we have power to attach to unissued or new shares; and
- divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by the directors.

We may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital, or any capital redemption reserve in any manner authorized by law.

Rights to share in any surplus in the event of liquidation

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares, if we are wound up and the assets available for distribution among our members are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess will be distributed *pari passu* among those members in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively, and if we are wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, these assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may, with the sanction of our special resolution and any other sanction required by the Companies Law, divide among our members *in specie* or in kind the whole or any part of our assets (whether they consist of property of the same kind or not) and may, for such purpose, set the value that it deems fair upon any property to be divided and may determine how the division is to be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, thinks fit, but so that no member will be compelled to accept any assets, shares or other securities upon which there is a liability.

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Modification of Rights

Except with respect to share capital (as described above) and the location of the registered office, alterations to our memorandum and articles of association may only be made by special resolution.

Subject to the Companies Law, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our articles of association relating to general meetings shall apply *mutatis mutandis* to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting other than an adjourned meeting will be two persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class. Every holder of ordinary shares of the class will be entitled on a poll to one vote for every such share held by such holder and any holder of shares of that class present in person or by proxy or (being a corporation) by an authorized representative may demand a poll. At an adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such class of shares.

Shareholder meetings

We must hold an annual general meeting every year within 15 months after the holding of the last preceding annual general meeting or, if it is the year that we adopted our articles of association, not more than 18 months after the date of adoption of our articles, at such time and place as may be determined by our board of directors. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Our board may whenever it thinks fit call extraordinary general meetings. Any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of our paid up capital carrying the right of voting at general meetings shall at all times have the right, by written requisition to the board or our company secretary, to require an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit our board fails to proceed to convene such meeting, then the requisitioning shareholder(s) may themselves do so in the same manner, and all reasonable expenses incurred by such requisitioning shareholders as a result of the failure of the board shall be reimbursed to the requisitioning shareholders by us.

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution must be called by not less than 21 days' notice in writing and any other extraordinary general meeting must be called by not less than 14 days' notice in writing. Notice of every general meeting will be given to all our shareholders other than those who, under the provisions of our articles of association or the terms of issue of the shares they hold, are not entitled to receive such notices from us, and also to our auditors for the time being.

Notwithstanding that a meeting is called by shorter notice than that mentioned above, it will be deemed to have been duly called if it is so agreed in the case of a meeting called as an annual general meeting by all our members entitled to attend and vote at the meeting, or in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

An ordinary resolution is defined in our articles to mean a resolution passed by a simple majority of the votes of members who are entitled to vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with our articles of association. Pursuant to our articles of association, a special resolution must be passed by a majority of not less than three-fourths of the votes cast by members who are entitled to vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all our members entitled to attend and vote at that meeting, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given. A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

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No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the commencement of business, but the absence of a quorum shall not preclude the appointment of a chairman, which will not be treated as part of the business of the meeting.

Two of our members present in person or by proxy representing not less than one-third in nominal value of the total issued voting shares will be a quorum.

A corporation being a member will be deemed for the purpose of our articles of association to be present in person if represented by its duly authorized representative, being the person appointed by resolution of the directors or other governing body of that corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our members. A duly authorized representative will be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were our individual member.

The quorum for a separate general meeting of the holders of a separate class of our shares is described in “—Modification of Rights” above.

Rights to Own Shares

There are no restrictions imposed by Cayman Islands law or our articles of association on the rights to own our shares.

C. Material Contracts

The following material contracts (being contracts not entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years preceding the filing date of this annual report:

1. Shareholders' Agreement, dated 27 July 2005, made among PT Asia Mobile, Asia Telecommunication Technology Ltd., CAC Holdings (Netherlands) B.V. and PT Hutchison CP.
2. Co-operation Agreement dated December 21, 2005 between HTIL and Orascom Holding (an entity that holds approximately 19.2% of our outstanding shares), pursuant to which the parties have agreed to cooperate at all levels and make appropriate management team resources from their respective organizations to achieve the commercial, operational and technological synergies.
3. Amended and Restated Registration Rights Agreement dated December 21, 2005 between Hutchison Telecommunications Investment, Cheung Kong Holdings, HTIL and Orascom Eurasia, amending and restating the Registration Rights Agreement dated September 24, 2004 among Hutchison Telecommunications Investment, Cheung Kong Holdings and HTIL, pursuant to which, among other things, Cheung Kong Holdings, Hutchison Telecommunications Investment and Orascom Eurasia may from time to time make a written request of us to register all or part of the shares held by each of them with the SEC for offer and sale to the public under a registration statement.
4. Side letter dated April 26, 2006 between Hutchison International and HTIL relating to the IPR Framework Agreement dated September 24, 2004 between the same parties.

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D. Exchange Controls

There are no exchange control regulations or currency restrictions in the Cayman Islands. No foreign exchange controls exist in Hong Kong and there is free flow of capital into and out of Hong Kong.

E. Taxation

The following discussion of the material Cayman Islands and Hong Kong tax and U.S. federal income tax consequences to which a holder of our ADSs or ordinary shares may be subject is based upon laws and relevant interpretations thereof currently in effect, all of which are subject to change. This discussion does not address all possible tax considerations that may be relevant to a decision to purchase, hold or sell our ADSs or ordinary shares, such as the tax consequences under U.S. state and local and other tax laws.

Cayman Islands

The Cayman Islands currently do not levy taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ordinary shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of ordinary shares be subject to Cayman Islands income or corporation tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of ordinary shares. However, an instrument transferring title to an ordinary share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

- no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of twenty years from March 23, 2004.

Hong Kong

The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice to you. The discussion does not deal with all possible tax consequences relating to purchasing, holding or selling our ADSs or ordinary shares. Accordingly, holders or prospective purchasers (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting share capital) should consult their own tax advisers regarding the tax consequences of purchasing, holding or selling our ADSs and ordinary shares. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

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Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Profits Tax

No profits tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ADSs and ordinary shares). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from the trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals and unincorporated businesses. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ADSs or ordinary shares realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

There will be no liability for Hong Kong profits tax in respect of trading gains from the sale of ADSs, where purchases and sales of ADSs are effected outside of Hong Kong, *e.g.* on the New York Stock Exchange.

Stamp Duty

The sale, purchase and transfer of ordinary shares on the Hong Kong branch register are subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and the seller is 0.1% of the consideration or, if greater, the fair value of the ordinary shares being sold or transferred. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, may be subject to Hong Kong stamp duty at the rate described above for sale and purchase transactions, unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depository or for the account of the depository should not lead to a Hong Kong stamp duty liability. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

Estate duty was abolished in Hong Kong with effect from February 11, 2006. Estates of persons who passed away on or after this date are not subject to estate duty. In respect of deaths which occurred on or after July 15, 2005, but before February 11, 2006 (the interim period), any estate duty has been reduced with retrospective effect to a nominal duty of HK\$100 for estates of assessed value exceeding HK\$7.5 million. No estate duty is payable on estates of assessed value below HK\$7.5 million. Any estate duty overpaid will be refunded.

United States Federal Income Taxation

U.S. Holders

This summary describes certain material U.S. federal income tax consequences for a U.S. Holder (as defined below) of acquiring, owning and disposing of the ADSs or ordinary shares. This summary applies only to U.S. Holders that will hold the ADSs or ordinary shares as capital assets for tax purposes. This summary does not apply to a U.S. Holder subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life-insurance company;
- a tax-exempt organization;

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- a person that holds ADSs or ordinary shares as part of a hedge, straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the United States Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. Accordingly, holders and prospective purchasers should consult their own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of ADSs or ordinary shares in light of their particular circumstances.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of an ordinary share or ADS that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the ordinary shares or ADSs.

For U.S. tax consequences to a holder that is not a U.S. person for U.S. federal income tax purposes (a “non-U.S. Holder”), see the discussion below under “—Non-U.S. Holders.”

Holders of ADSs will be treated for U.S. federal income tax purposes as holding the ordinary shares represented by the ADSs. No gain or loss will be recognized upon the exchange of ordinary shares for ADSs or an exchange of ADSs for ordinary shares. References below to ordinary shares should be understood to refer as appropriate to ordinary shares that are held directly, as well as those ordinary shares the ownership of which is represented by ADSs.

Distributions

Subject to the discussion of the passive foreign investment company (“PFIC”) rules below, distributions paid with respect to the ordinary shares to the extent of our current and accumulated earnings and profits as determined under U.S. federal income tax principles (“Taxable Dividends”) will be taxed as ordinary income at the time of the receipt of such amounts by the U.S. Holder. Taxable Dividends will be foreign source income and will not be eligible for the dividends–received deduction available to domestic corporations. To the extent amounts paid as distributions on ordinary shares exceed our current and accumulated earnings and profits, these amounts will not be Taxable Dividends but instead will be treated first as a tax–free return of capital reducing the U.S. Holder’s basis in the ordinary shares until such basis is reduced to zero, and then as gain from the sale of the U.S. Holder’s ordinary shares. This reduction in a U.S. Holder’s basis in the ordinary shares would increase any capital gain, or reduce any capital loss, realized by the U.S. Holder upon the subsequent sale, redemption or other taxable disposition of the ordinary shares. For taxable years beginning after December 31, 2002 and before January 1, 2011 (provided that certain holding period requirements are met and subject to other conditions and limitations), dividends received by U.S. Holders that are individuals generally will be taxed at the preferential tax rates applicable to long–term capital gains.

Taxable Dispositions

Subject to the discussion of the PFIC rules below, upon a sale, exchange, or other taxable disposition of ordinary shares, a U.S. Holder will generally recognize gain or loss for federal income tax purposes in an amount equal to the difference between (1) the sum of the amount of cash and the fair market value of any property received and (2) the U.S. Holder’s tax basis in the ordinary shares that are disposed of. Such gain or loss generally will be long–term capital gain or loss if the U.S. Holder has held the ordinary shares for more than one year. Net long–term capital gain recognized by an individual U.S. Holder is generally subject to taxation at lower rates than short–term capital gain or ordinary income. The deductibility of capital losses is subject to limitations. Any gain generally will be treated as U.S. source income.

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Passive Foreign Investment Company Considerations

Special U.S. federal income tax rules apply to U.S. persons owning stock of a PFIC. A foreign corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is passive income, or (ii) 50% or more of the average value (or, if elected, the adjusted tax basis) of its assets are considered “passive assets” (generally, assets that generate passive income).

Based on our audited accounts and relevant market and shareholder data, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2006 taxable year. With respect to our 2007 taxable year, although we do not anticipate becoming a PFIC, the disposition of CGP Investments Holdings to Vodafone and the receipt of the proceeds will cause a significant change in the composition of our assets and income. The receipt of the cash proceeds from the sale of CGP Investments Holdings may cause the average value of our assets producing passive income to equal or exceed 50% for our 2007 and/or 2008 taxable years. The determination of PFIC status is made on an annual basis, and will depend on, among other factors, how we use the sale proceeds, when such use of the sale proceeds occurs, and the availability of a special relief provision under Section 1298(b)(3) of the US Internal Revenue Code of 1986, or the Code, for companies that temporarily hold substantial passive assets as a result of the disposition of an active trade or business, also known as the change of business exception. To qualify for the change of business exception, which provides relief only for the year of disposition, we would need to satisfy the following conditions: (i) we have never previously been a PFIC; (ii) “substantially all” of the passive income for the year is attributable to proceeds from the disposition of one or more “active trades or businesses” as these terms are used and interpreted under the Code; and (iii) we are not a PFIC for either of the next two taxable years. We are seeking confirmation from the U.S. Internal Revenue Service of our eligibility for the change of business exception with respect to our 2007 taxable year. However, in order to rely on the change of business exception for 2007, we will need to reduce our holdings of assets generating passive income, increase the average value of our non-passive assets, or do both such things so that less than 50% of the average value of our total assets in 2008 and 2009 are passive. If we are found to be a PFIC for 2008 or 2009, then we would be retroactively ineligible for the change of business exception, but may not know and will not be able to inform you of such determination until 2009 or 2010.

If we were classified as a PFIC for any taxable year during which a U.S. Holder holds its shares, such U.S. Holder would be subject to increased tax liability (possibly including an interest charge) upon the sale or other disposition of shares or upon the receipt of certain distributions treated as “excess distributions,” unless such U.S. Holder elected to be taxed currently (as discussed below) on its pro rata portion of our income, regardless of whether such income was actually distributed. An excess distribution generally is any distribution to a U.S. Holder with respect to our shares during a single taxable year that is greater than 125% of the average annual distributions received by the U.S. Holder with respect to our shares during the three preceding taxable years or, if shorter, during the U.S. Holder’s holding period for the shares.

Since our shares are regularly traded on a registered national securities exchange, they would constitute “marketable stock” for purposes of the PFIC rules, and a U.S. Holder would not be subject to the foregoing PFIC rules if such U.S. Holder made a mark-to-market election. After making such an election, the U.S. Holder generally would include as ordinary income each year the excess, if any, of the fair market value of our shares at the end of the taxable year over the U.S. Holder’s adjusted basis in such shares. These amounts of ordinary income would not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. The U.S. Holder also would be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of the our shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of income that was previously included as a result of the mark-to-market election). The U.S. Holder’s tax basis in our shares would be adjusted to reflect any income or loss amounts resulting from a mark-to-market election. If made, a mark-to-market election would be effective for the taxable year for which the election was made and for all subsequent taxable years unless the shares ceased to qualify as “marketable stock” for purposes of the PFIC rules or the IRS consented to the revocation of the election. In the event that we are classified as a PFIC, U.S. Holders are urged to consult their tax advisors regarding the availability of the mark-to-market election, and whether the election would be advisable in their particular circumstances.

The PFIC tax rules outlined above would not apply to a U.S. Holder that elected to have us treated as a “qualified electing fund” or “QEF.” However, U.S. Holders should consult their tax advisors as to the availability and consequences of such an election. In particular, an election to treat an issuer as a QEF will not be available if the issuer does not provide the information necessary to make such an election. We will not provide U.S. Holders with the information necessary to make a QEF election. Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC or, in certain cases, QEF inclusions.

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Notwithstanding any election made with respect to our shares, dividends received with respect to our shares would not constitute “qualified dividend income” to a U.S. Holder if we are a PFIC in either the year of the distribution or the preceding taxable year. Dividends that do not constitute qualified dividend income are not eligible for taxation at the reduced tax rate discussed above in “*Distributions*.” Instead, such dividends would be subject to tax at ordinary income rates. A U.S. Holder that owns our shares during any year in which we are a PFIC must also file IRS Form 8621.

U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding our shares if we are considered a PFIC in any taxable year.

Non-U.S. Holders

Any dividends received on ordinary shares and any gain realized on sale or exchange of ordinary shares by a non-U.S. Holder generally will be exempt from U.S. federal income tax, including withholding tax. However, to receive this exemption a non-U.S. Holder may be required to satisfy certain certification requirements of the Internal Revenue Service to establish that it is not a U.S. person. See “*Information Reporting and Backup Withholding*” below.

A non-U.S. Holder may be subject to U.S. federal income taxes on any dividends received on ordinary shares and on any gain realized on the sale or exchange of ordinary shares if it has an office, fixed place of business or a tax home in the United States or certain other conditions exist.

Information Reporting and Backup Withholding

Dividends on ordinary shares, and payments of the proceeds of a sale of ordinary shares, paid within the United States or through certain U.S. related financial intermediaries, are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Non-U.S. Holders generally are not subject to information reporting or backup withholding. However, such a non-U.S. Holder may be required to provide a certification as to its non-U.S. status in connection with payments received within the United States or through certain U.S. related financial intermediaries.

F. Dividends and Paying Agents

Not Applicable

G. Statement by Experts

Not Applicable

H. Documents on Display

We file reports, including annual reports on Form 20-F, and other information with the Securities and Exchange Commission pursuant to the rules and regulations of the Securities and Exchange Commission that apply to foreign private issuers.

You may read and copy any materials that we filed or furnished, or will file with or furnish to, the Securities and Exchange Commission at its public reference rooms located at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Any filings that we make electronically will be available to the public at www.sec.gov.

A summary of the significant ways in which our corporate governance practices, as a foreign private issuer, differ from those followed by U.S. domestic companies under the listing standards of the New York Stock Exchange, is set forth in the Corporate Governance section of our website at www.htil.com. None of the documents on our website are incorporated by reference in this annual report.

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I. Subsidiary Information

Not Applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates and currency exchange rates. Interest rate risk exists principally with respect to our net 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 our financial assets and liabilities denominated in currencies other than Hong Kong dollars. We are also subject to exchange rate risks with respect to our operations and investments outside Hong Kong. See note 3 to our accounts.

We manage these risks through 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 us for trading or speculative purposes.

This section contains “forward-looking statements” as described in “Forward-Looking Statements.”

Foreign currency exposure

The following table sets out our borrowings by currency as a percentage of total borrowings.

Currency	As of December 31,	
	2005	2006
	%	
Hong Kong dollars	23.5	13.5
Indian Rupees	19.6	37.1
New Israeli Shekels	16.9	10.8
Thai Baht	20.3	5.0
Japanese Yen	6.0	16.7
US dollars	13.6	16.9
Other currencies	0.1	0.0
	100.0	100.0

We operate internationally and are 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, we generally endeavour 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, we might not borrow in the local currency and may 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.

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. Foreign currency-denominated borrowings are translated at the contracted swap rates where we have entered into currency swap arrangements. We may use derivative instruments to hedge or adjust our exposures. For example, Japanese yen and US dollar loan and drawings and repayments of our Thailand operations were converted to Thai baht payments through cross currency swaps and forward foreign currency contracts to match currency exposure of the underlying business and thereby hedge against the exchange risk in relation to the Thailand operations' Japanese yen- and US dollar-denominated borrowings. See note 25 to our accounts. Since most of our borrowings are in the same currencies as those used by the underlying operations, we believe that any potential depreciation of our operating currencies will not have a material adverse effect on our financial condition and results of operations.

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Interest rate exposure

Our main interest risk exposures relate to our borrowings which bear interest at floating rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rates. When considered appropriate, we use a combination of interest rate swaps and forward rate agreements to manage our long-term interest rate exposure and exposure to short-term interest rate volatility, respectively. The swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the hedged debts is adjusted to include the payments made or received under the interest rate swaps.

We had a currency and interest rate swap arrangement with a bank to swap floating US dollar borrowings with floating rate interest into fixed rate Indian rupees borrowings to match currency and interest rate exposure of the underlying business. The arrangement expired in October 2006. In addition, Partner entered into derivative transactions in order to protect itself against increases in the Israeli Consumer Price Index, or CPI, in respect of CPI-linked notes that had been issued by it. See note 18 to our accounts.

Our financial assets and liabilities as of December 31, 2005 and 2006 consisted mainly of non-derivative assets and liabilities, which were presented at their fair values. The fair values of our fixed-rate and floating-rate borrowings approximate their fair values since they bear interest at rates close to the prevailing market rates.

The following table summarises the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as at December 31, 2006 that are sensitive to exchange rates or interest rates. Data presented below includes bank loans and other third party borrowings:

	December 31, 2006 Maturities				December 31, 2006	
	2007	2008	2009	Thereafter	Total	Fair value
(HK\$ in millions except rates)						
Local currency:						
Hong Kong Dollars:						
Fixed rate	1	2	2	6	11	11
Average weighted rate ⁽¹⁾	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Variable rate	80	5,223	—	—	5,303	5,303
Average weighted rate ⁽¹⁾	4.73%	4.94%	—	—	4.94%	4.94%
Sub-total	81	5,225	2	6	5,314	5,314
Foreign currency:						
Thai Baht:						
Variable rate ⁽²⁾	8,588	37	37	19	8,681	8,681
Average weighted rate ⁽¹⁾	6.05%	5.73%	5.73%	5.73%	6.05%	6.05%
Sub-total	8,588	37	37	19	8,681	8,681
Indian Rupees:						
Fixed rate	6,499	3,387	4	3	9,893	9,806
Average weighted rate ⁽¹⁾	8.58%	7.01%	25.54%	22.35%	8.05%	8.06%
Variable rate	806	2,156	1,776	—	4,738	4,738
Average weighted rate ⁽¹⁾	8.87%	8.61%	9.69%	—	9.06%	9.06%
Sub-total	7,305	5,543	1,780	3	14,631	14,544
New Israel Shekels:						
Variable rate	65	264	1,149	2,780	4,258	4,249
Average weighted rate ⁽¹⁾	5.78%	5.66%	4.52%	4.25%	4.43%	4.43%
Sub-total	65	264	1,149	2,780	4,258	4,249
US Dollars:						
Fixed rate	9	559	5	—	573	573
Average weighted rate ⁽¹⁾	7.25%	4.41%	7.25%	—	4.48%	4.48%
Variable rate	—	4,874	4	1,082	5,960	5,960
Average weighted rate ⁽¹⁾	—	6.23%	7.37%	6.21%	6.23%	6.23%
Sub-total	9	5,433	9	1,082	6,533	6,533
Total	16,048	16,502	2,977	3,890	39,417	39,321

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

(2) Included Japanese yen borrowings of HK\$6,578 million (US\$846 million) and US dollar borrowings of HK\$131 million (US\$16.8 million) which were swapped into Thai baht borrowings as at December 31, 2006.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the Sarbanes–Oxley Act, our management, including our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006. “Disclosure controls and procedures” are defined under the Exchange Act as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarised and reported within required time periods. These controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer have concluded that as of December 31, 2006, our disclosure controls and procedures were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Report on Internal Control over Financial Reporting

Under the Exchange Act, our management, with the participation of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a–15(f) under the Exchange Act, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2006. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or GAAP.

Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting might not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls might become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures might deteriorate.

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Our management has performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 based upon criteria in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment using those criteria, our management has concluded that, as of December 31, 2006, our internal control over financial reporting was effective.

Management excluded HECL and Spacetel, which were both indirect subsidiaries of ours as of December 31, 2006, from its assessment of internal control over financial reporting as of December 31, 2006 because they were acquired in transactions completed during 2006. The aggregate total assets and total revenues of HECL and Spacetel represented approximately 3.4%, and 3.9%, respectively, of the related consolidated financial statements amounts as of and for the year ended December 31, 2006.

The assessment of management as to the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears at p. F-2.

Changes in Internal Control over Financial Reporting

During the period covered by this annual report, no change has occurred in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Messrs. Kevin Westley, Kwan Kai Cheong and John Stanton are each an “audit committee financial expert” within the meaning of Item 16A of this annual report. Messrs. Westley, Kwan and Stanton are each independent as defined in the applicable listing standards of the New York Stock Exchange for foreign private issuers and in the rules of the Securities and Exchange Commission.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a Code of Ethics that applies to all of our directors, officers and employees, including our chief executive officer, chief financial officer and principal accounting officer. A copy of the Code of Ethics is attached as Exhibit 11 to this annual report and is available from the Corporate Governance section of our website at www.htil.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers is our principal accountant.

Our audit and non-audit services approval policy was approved by our audit committee on July 29, 2005 and amended on December 12, 2006. Under the policy, services proposed to be performed by our independent auditors may be pre-approved if they fall within the scope of services that are permitted to pre-approved under the policy and the fees for these services fall within the applicable limits set forth in the policy. The fees for pre-approved audit services are prescribed by the audit committee on an annual basis. The fees for pre-approved non-audit services must, for each engagement, be less than the limit prescribed by the policy for individual engagements and must, in the aggregate, be less than 5% of the maximum amount prescribed by the audit committee for audit service fees. If any proposed service exceeds the pre-approved fee levels, or if management requires any service from the independent auditors that is not covered by the policy, then the service must be specifically considered and approved by the audit independent auditor may be engaged to provide the service. The total fees for all services are to be presented annually to the audit committee for final approval. None of the engagements of PricewaterhouseCoopers to provide the audit and non-audit services described below were approved by our audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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PricewaterhouseCoopers billed us for the following services in 2005 and 2006:

Nature of the service	2005	2006
	(HK\$ millions)	(HK\$ millions)
Audit fees	28	74
Audit-related fees	14	13
Tax fees	—	1
Total	<u>42</u>	<u>88</u>

Audit Fees

Audit fees are the aggregate fees billed by our principal accountant for professional services rendered for the audits of our annual accounts, management's assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting, and performance of other procedures required to be performed for the principal accountant to form an opinion on our consolidated accounts. Other procedures include information systems and procedural reviews and testing performed in order to understand and rely on the internal control systems and consultations relating to the audit and interim review.

Audit-Related Fees

Audit-related fees are the aggregate fees billed by our principal accountant for advisory services fees and generally include support for the interpretation and implementation of new accounting and reporting standards. They also include the reports for compliance with telecommunications regulations and debt obligations. The audit-related fees for 2006 also included the fees of approximately HK\$7 million (US\$0.9 million) for acting as our reporting accountants to report on financial information of Hutchison Essar relating to a proposed initial public offering of Hutchison Essar.

Tax Fees

Tax fees are the aggregate fees billed by our principal accountant for tax compliance, tax advice and tax planning services on domestic and international taxation matters.

ITEM 16D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

PART III**ITEM 17. FINANCIAL STATEMENTS**

Our financial statements have been prepared in accordance with Item 18 hereof.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-82.

ITEM 19. EXHIBITS

Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

EXHIBITS INDEX

Exhibit Number	Description of Exhibit
1.1†	Amended and Restated Memorandum of Association, dated September 3, 2004
1.2	Articles of Association, dated September 3, 2004, as amended on May 5, 2005 and May 8, 2007
2.1††	Form of Indenture between Partner Communications Company Ltd. and The Bank of New York, as trustee, including form of note
2.2††	Form of Indenture between Partner Communications Company Ltd. and the Trust Company of Igud Bank Ltd.
4.1†††	Form of Deposit Agreement among Hutchison Telecommunications International Limited, Citibank, N.A., as depositary, and Holders and Beneficial Holders from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt
4.2†	Non-Competition Agreement dated September 24, 2004 between Hutchison Telecommunications International Limited and Hutchison Whampoa Limited
4.3†	IPR Framework Agreement dated September 24, 2004 between Hutchison International Limited and Hutchison Telecommunications International Limited
4.4†	Registration Rights Agreement dated September 24, 2004 among Hutchison Telecommunications Investment Holdings Limited, Cheung Kong (Holdings) Limited and Hutchison Telecommunications International Limited
4.5†	Counter-Indemnity Agreement dated September 24, 2004 between Hutchison Whampoa Limited and Hutchison Telecommunications International Limited
4.6	Share Option Scheme dated September 17, 2004 of Hutchison Telecommunications International Limited and its group members, as amended on July 12, 2005, February 9, 2006 and May 8, 2007
4.7#†	Marketing Service Agreement dated August 14, 1996 (as amended on April 1, 1997, October 16, 2000 and August 11, 2003) between the Communications Authority of Thailand and Hutchison CAT Wireless Multimedia Company Limited
4.8#†	Lease Agreement dated October 16, 2000 among Communications Authority of Thailand, BFKT (Thailand) Limited and Hutchison CAT Wireless Multimedia Company Limited
4.9†	Hutchison Wireless Shareholders' Agreement dated October 16, 2000 between Hutchison Telecommunications Investment Limited, GMRP (Thailand) Limited, Tawan Telecom Company Limited, Mr. Prayong Boonsong, Mr. Virat Ovararint and i-Mobile Holdings Company Limited
4.10†	Hutchison CAT Shareholders' Agreement dated October 14, 1999 and amended October 16, 2000 between Hutchison CAT Wireless Multimedia Company Limited and Communications Authority of Thailand Telecom
4.11†	PKNS (Thailand) Limited Shareholders' Agreement dated October 16, 2000 between Light Power Telecommunications Limited and DPBB (Thailand) Limited
4.12*	Form of service agreement for management
4.13*	Form of appointment letter for non-executive directors
4.14**	Amended and Restated Registration Rights Agreement dated December 21, 2005, between Hutchison Telecommunications International Limited, Hutchison Telecommunications Investment Holdings Limited, Cheung Kong (Holdings) Limited and Orascom Telecom Eurasia Limited
4.15*	Side letter dated April 26, 2006 between Hutchison International Limited and Hutchison Telecommunications International Limited relating to the IPR Framework Agreement dated September 24, 2004

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4.16	Shareholders' Agreement, dated 27 July 2005, made amongst PT Asia Mobile, Asia Telecommunication Technology Ltd., CAC Holdings (Netherlands) B.V. and PT Hutchison CP Telecommunications
4.17*	Co-operation Agreement dated December 21, 2005 between Hutchison Telecommunications International Limited and Orascom Telecom Holding S.A.E.
6	See note 16 to our consolidated accounts for information explaining how earnings (loss) per share information was calculated.
8	List of all subsidiaries (see Item 4.D)
11	Code of Ethics, as amended on August 16, 2006
12.1	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended
12.2	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended
13	Certification Pursuant to 18 U.S.C. Section 1350
#	Confidential treatment has been requested. Confidential material has been redacted and separately filed with the Securities and Exchange Commission.
†	Previously filed; incorporated by reference to our registration statement on Form F-1 (No. 333-118783).
††	Previously filed; incorporated by reference to the annual report on Form 20-F of Partner Communications Company Ltd (No. 001-14968) for the fiscal year ended December 31, 2004.
†††	Previously filed; incorporated by reference to Citibank, N.A.'s Registration Statement on Form F-6 (File No. 333-119242).
*	Previously filed; incorporated by reference to our annual report on Form 20-F (No. 001-32309).
**	Previously filed; incorporated by reference to Schedule 13D Amendment No. 2 filed jointly on December 27, 2005 by Hutchison Whampoa Limited, Cheung Kong (Holdings) Limited and the other entities specified therein.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 26, 2007

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL
LIMITED

By: /s/ Tim Lincoln Pennington
Name: Tim Lincoln Pennington
Title: Executive Director and Chief Financial Officer

Hutchison Telecommunications International Limited

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders:

We have completed an integrated audit of Hutchison Telecommunications International Limited's December 31, 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its December 31, 2005 and December 31, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hutchison Telecommunications International Limited (the "Company") and its subsidiaries at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years ended December 31, 2006 in conformity with Hong Kong Financial Reporting Standards. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Hong Kong Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences is presented in note 36 to the accounts.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 15, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Hutchison Essar Cellular Limited (formerly BPL Mobile Cellular Limited) ("HECL") and Essar Spacetel Private Limited ("Spacetel"), which were both indirect subsidiaries of the Company as of December 31, 2006, from its assessment of internal control over financial reporting as of December 31, 2006 because they were acquired in transactions completed during 2006. The aggregate total assets and total revenues of HECL and Spacetel represent approximately 3.4% and 3.9%, respectively, of the related consolidated financial statements amounts as of and for the year ended December 31, 2006.

PricewaterhouseCoopers

June 12, 2007

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December			
		2004 HK\$ millions	2005 HK\$ millions	2006 HK\$ millions	2006 US\$ millions (Note 35)
Continuing operations:					
Turnover					
Cost of inventories sold	6	14,845	24,356	33,378	4,290
Staff costs	8	(1,586)	(2,319)	(2,305)	(296)
Depreciation and amortisation		(3,117)	(4,367)	(5,076)	(652)
Other operating expenses	9	(8,913)	(13,256)	(18,330)	(2,356)
Operating profit / (loss) before disposal of investments and others		(144)	2,083	5,001	643
Profit on disposal of investments and others, net	10	1,300	71	44	6
Operating profit		1,156	2,154	5,045	649
Interest income	11	24	65	121	16
Interest and other finance costs	11	(1,039)	(1,669)	(2,763)	(356)
Share of results of associates	12	338	86	(1)	—
Profit before taxation		479	636	2,402	309
Taxation	13	(185)	(434)	(826)	(106)
Profit for the year from continuing operations		294	202	1,576	203
Discontinued operations:					
Loss from discontinued operations	14	(54)	(352)	—	—
Profit / (loss) for the year		240	(150)	1,576	203
Attributable to:					
Equity holders of the Company:					
– continuing operations		24	(416)	201	26
– discontinued operations		(54)	(352)	—	—
		(30)	(768)	201	26
Minority interest – continuing operations		270	618	1,375	177
		240	(150)	1,576	203
Dividends	15	—	—	—	—
Earnings / (loss) per share from continuing operations attributable to equity holders of the Company:					
– basic	16	HK\$ 0.01	HK\$ (0.09)	HK\$ 0.04	US\$ 0.01
– diluted		HK\$ 0.01	HK\$ (0.09)	HK\$ 0.04	US\$ 0.01
Earnings / (loss) per share attributable to equity holders of the Company:					
– basic	16	HK\$ (0.01)	HK\$ (0.17)	HK\$ 0.04	US\$ 0.01
– diluted		HK\$ (0.01)	HK\$ (0.17)	HK\$ 0.04	US\$ 0.01

The accompanying notes are an integral part of the consolidated accounts.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
CONSOLIDATED BALANCE SHEET

	Note	2005 HK\$ millions	As at 31 December 2006 HK\$ millions	2006 US\$ millions (Note 35)
ASSETS				
Current assets				
Cash and cash equivalents		2,436	2,048	263
Restricted cash		1	—	—
Trade and other receivables	17	10,009	10,090	1,297
Stocks		688	436	56
Derivative financial assets	18	9	23	3
Total current assets		<u>13,143</u>	<u>12,597</u>	<u>1,619</u>
Non-current assets				
Fixed assets	19	24,591	31,962	4,108
Goodwill	20	9,688	19,571	2,516
Other intangible assets	21	9,182	10,760	1,383
Other non-current assets	22	2,067	3,829	492
Deferred tax assets	23	918	997	128
Interests in associates		2	2	—
Total non-current assets		<u>46,448</u>	<u>67,121</u>	<u>8,627</u>
Total assets		<u>59,591</u>	<u>79,718</u>	<u>10,246</u>
LIABILITIES				
Current liabilities				
Trade and other payables	24	10,535	13,479	1,732
Borrowings	25	7,690	16,048	2,063
Current income tax liabilities		130	153	20
Derivative financial liabilities	18	116	185	24
Total current liabilities		<u>18,471</u>	<u>29,865</u>	<u>3,839</u>
Non-current liabilities				
Borrowings	25	19,002	23,369	3,004
Deferred tax liabilities	23	963	1,075	138
Other non-current liabilities	26	1,333	2,992	384
Total non-current liabilities		<u>21,298</u>	<u>27,436</u>	<u>3,526</u>
Total liabilities		<u>39,769</u>	<u>57,301</u>	<u>7,365</u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	27	1,188	1,191	153
Reserves	28	14,982	15,468	1,988
		16,170	16,659	2,141
Minority interest	29(d)	3,652	5,758	740
Total equity		<u>19,822</u>	<u>22,417</u>	<u>2,881</u>
Total equity and liabilities		<u>59,591</u>	<u>79,718</u>	<u>10,246</u>
Net current liabilities		<u>5,328</u>	<u>17,268</u>	<u>2,220</u>
Total assets less current liabilities		<u>41,120</u>	<u>49,853</u>	<u>6,407</u>

The accompanying notes are an integral part of the consolidated accounts.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
CONSOLIDATED CASH FLOW STATEMENT

	Note	For the year ended 31 December			2006 US\$ millions (Note 35)
		2004 HK\$ millions	2005 HK\$ millions	2006 HK\$ millions	
Cash flows from operating activities					
Profit before taxation		479	636	2,402	309
Adjustments for:					
– Interest income	11	(24)	(65)	(121)	(16)
– Interest and other finance costs	11	1,039	1,669	2,763	356
– Depreciation and amortisation	7	3,117	4,367	5,076	652
– Recognition of share-based payments	8	6	109	116	15
– Profit on disposal of investments and others, net	10	(1,300)	(71)	(44)	(6)
– Loss on disposal and impairment of fixed assets	9	144	7	31	4
– Write-off of customer acquisition and retention costs	9	150	99	26	3
– Share of results of associates	12	(338)	(86)	1	—
– Changes in working capital					
– Decrease / (increase) in stocks		143	(42)	194	25
– Increase in trade receivables, other receivables and prepayments		(1,081)	(1,099)	(2,029)	(261)
– Decrease / (increase) in short-term receivable from related companies		(85)	(1)	36	5
– Increase in trade and other payables		970	1,581	132	17
– (Decrease) / increase in short-term payable to related companies		(5)	85	(54)	(7)
Cash generated from continuing operations		3,215	7,189	8,529	1,096
Loss for the year from discontinued operations					
– Adjustment for depreciation and amortisation		33	16	—	—
– Loss on disposal of discontinued operations		—	336	—	—
Cash used in discontinued operations	14	(21)	—	—	—
Cash generated from operations		3,194	7,189	8,529	1,096
Interest received		24	65	114	14
Interest and other finance costs paid		(892)	(1,756)	(2,242)	(288)
Taxes paid		(82)	(221)	(887)	(114)
Net cash generated from operating activities		2,244	5,277	5,514	708

The accompanying notes are an integral part of the consolidated accounts.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
CONSOLIDATED CASH FLOW STATEMENT (continued)

	Note	For the year ended 31 December			2006
		2004	2005	2006	2006
		HK\$ millions	HK\$ millions	HK\$ millions	US\$ millions (Note 35)
Cash flows from investing activities					
Purchases of fixed assets		(5,138)	(4,046)	(7,781)	(1,000)
Upfront and fixed periodic payments for telecommunications licences		(249)	—	(236)	(30)
Additions to customer acquisition and retention costs		(728)	(650)	(485)	(62)
Additions to prepaid capacity and maintenance		—	—	(181)	(23)
Advance payments for network roll out		—	—	(162)	(21)
Non-current loan to a related company		—	—	(110)	(14)
Prepayments for acquisition of subsidiaries		—	(4,011)	(788)	(101)
(Increase) / decrease in long-term deposits		14	(337)	(35)	(5)
Proceeds on disposal of fixed assets		34	16	34	4
Purchases of subsidiaries, net of cash acquired	29(a)	69	(926)	41	5
Purchase of transmission business	29(b)	—	—	(124)	(16)
Increase in investment in subsidiaries		—	(477)	(5,259)	(676)
Proceeds on disposal of subsidiaries, net of cash disposed of	29(c)	—	193	2	—
Proceeds on disposal of partial interest in a subsidiary		1,578	476	—	—
Net cash used in investing activities		<u>(4,420)</u>	<u>(9,762)</u>	<u>(15,084)</u>	<u>(1,939)</u>
Cash flows from financing activities					
Net cash flows from financing activities	29(d)	3,802	4,568	8,073	1,037
Increase in amounts due from related companies		(1,513)	—	—	—
Proceeds from exercise of share options of the Company		—	—	116	15
Proceeds from exercise of share options of a subsidiary		—	—	78	10
Equity contribution from minority shareholders	29(d)	—	312	1,368	176
Dividend paid to minority shareholders	29(d)	—	(70)	(266)	(34)
Repayment of loan from minority shareholders	29(d)	—	—	(188)	(24)
Decrease / (increase) in restricted cash		(4)	9	1	—
Net cash provided by financing activities		<u>2,285</u>	<u>4,819</u>	<u>9,182</u>	<u>1,180</u>
(Decrease) / increase in cash and cash equivalents		109	334	(388)	(51)
Cash and cash equivalents at beginning of year		1,993	2,102	2,436	314
Cash and cash equivalents at end of year		<u>2,102</u>	<u>2,436</u>	<u>2,048</u>	<u>263</u>
Analysis of net debt					
Borrowings	25	17,430	26,692	39,417	5,067
Less: cash and cash equivalents		(2,102)	(2,436)	(2,048)	(263)
Net debt		<u>15,328</u>	<u>24,256</u>	<u>37,369</u>	<u>4,804</u>

The accompanying notes are an integral part of the consolidated accounts.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2004	For the year ended 31 December		2006
	HK\$ millions	2005 HK\$ millions	2006 HK\$ millions	US\$ millions (Note 35)
Fair value changes arising from business combination	—	1,233	—	—
Currency translation differences	(73)	(467)	321	41
Actuarial gains / (losses) of defined benefit plans	(47)	47	12	2
Net income / (expense) recognised directly in equity	(120)	813	333	43
Profit / (loss) for the year	240	(150)	1,576	203
Total recognised income for the year	120	663	1,909	246
Attributable to:				
Equity holders of the Company	(73)	191	277	36
Minority interest	193	472	1,632	210
	<u>120</u>	<u>663</u>	<u>1,909</u>	<u>246</u>
Effect of change in accounting policies:				
Equity holders of the Company	—	—	—	—
Minority interest	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The accompanying notes are an integral part of the consolidated accounts.

NOTES TO THE ACCOUNTS

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

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED
NOTES TO THE ACCOUNTS

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:

- (i) There is no effect on the profit or loss and loss per share for the year ended 31 December 2004 as the loans to the subsidiary in Indonesia were made in 2005.
- (ii) 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	(9)
Loss attributable to equity holders of the Company	9
Exchange reserve	—
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)

- (iii) 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

	<u>Amendment to HKAS 21</u> <u>HK\$ millions</u>
Year ended 31 December 2006:	
Increase in other operating expenses	14
Decrease in profit for the year	<u>(14)</u>
Decrease in profit attributable to equity holders of the Company	<u>(14)</u>
Earnings per share – basic and diluted	<u>HK\$ (0.00)</u>
Net assets as at 31 December 2006	<u>—</u>
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	<u>14</u>
Cumulative impact of change in accounting policy as at 31 December 2006	<u>—</u>
Minority interest as at 31 December 2006	<u>—</u>
Total equity as at 31 December 2006	<u>—</u>

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 72.

(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.

(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.

2. Basis of preparation and principal accounting policies (continued)

(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.

(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.

2. Basis of preparation and principal accounting policies (continued)**(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.

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.

2. Basis of preparation and principal accounting policies (continued)

(k) Goodwill

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

(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.

2. Basis of preparation and principal accounting policies (continued)

(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).

(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.

2. Basis of preparation and principal accounting policies (continued)

(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.

(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.

2. Basis of preparation and principal accounting policies (continued)

(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.

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.

(ab) Interest income

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

2. Basis of preparation and principal accounting policies (continued)

(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.

(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.

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(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.

4. Critical accounting estimate and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(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 estimate and judgements (continued)**(b) Critical judgements in applying the Company's accounting policies****(i) Deferred taxation**

Management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the recognition criteria for deferred tax assets recorded in relation to cumulative tax loss 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.

Details of net liabilities acquired and goodwill are as follows:

	<u>HK\$ millions</u>
Purchase consideration (cash paid)	1,964
Less: fair value of net liabilities acquired – shown as below	<u>2,664</u>
Goodwill	<u>4,628</u>

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

	<u>Fair value</u> <u>HK\$ millions</u>	<u>Book value</u> <u>HK\$ millions</u>
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	<u>(3,238)</u>	<u>(3,238)</u>
Net liabilities acquired	<u>(2,664)</u>	<u>(1,801)</u>

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.

NOTES TO THE ACCOUNTS

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.

Details of net assets acquired and goodwill are as follows:

	<u>HK\$ millions</u>
Purchase consideration (cash paid)	124
Less: fair value of net assets acquired – shown as below	<u>(169)</u>
Negative goodwill recognised directly in the income statement (Note 10)	<u>(45)</u>

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

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

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.

Details of net liabilities acquired and goodwill are as follows:

	<u>HK\$ millions</u>
Purchase consideration (cash paid)	43
Less: fair value of net liabilities acquired – shown as below	10
Goodwill	<u>53</u>

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

	<u>Fair value</u> <u>HK\$ millions</u>	<u>Book value</u> <u>HK\$ millions</u>
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	<u>(10)</u>	<u>(10)</u>

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:

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

NOTES TO THE ACCOUNTS

6. Turnover

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

	2004	2005	2006
	HK\$ millions		
Mobile telecommunications services	11,743	20,986	29,271
Mobile telecommunications products	401	651	1,450
Fixed-line telecommunications services	1,870	2,204	2,406
Other non-telecommunications businesses	831	515	251
	<u>14,845</u>	<u>24,356</u>	<u>33,378</u>

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 2004							Total
	Hong Kong and Macau			India	Israel	Thailand	Others*	
	Mobile	Fixed-line	subtotal	HK\$ millions				
Turnover	3,714	1,870	5,584	7,093	—	1,219	949	14,845
Operating costs	(3,352)	(1,200)	(4,552)	(4,892)	—	(1,452)	(976)	(11,872)
Depreciation and amortisation	(886)	(476)	(1,362)	(857)	—	(846)	(52)	(3,117)
Operating (loss) / profit before disposal of investments and others	(524)	194	(330)	1,344	—	(1,079)	(79)	(144)
Profit on disposal of investments and others, net	—	1,300	1,300	—	—	—	—	1,300
Operating profit / (loss)	<u>(524)</u>	<u>1,494</u>	<u>970</u>	<u>1,344</u>	<u>—</u>	<u>(1,079)</u>	<u>(79)</u>	<u>1,156</u>
Other non-cash items included in income statement:								
Write-off of customer acquisition and retention costs	(67)	—	(67)	—	—	(83)	—	(150)
Provision for trade receivables	2	(61)	(59)	(67)	—	(22)	(5)	(153)
Impairment loss on fixed assets	(142)	—	(142)	—	—	—	—	(142)
Share-based payments	—	(6)	(6)	—	—	—	—	(6)
Total assets	<u>8,926</u>	<u>8,183</u>	<u>17,109</u>	<u>14,298</u>	<u>—</u>	<u>5,952</u>	<u>3,361</u>	<u>40,720</u>
Total liabilities	<u>(6,331)</u>	<u>(919)</u>	<u>(7,250)</u>	<u>(7,926)</u>	<u>—</u>	<u>(8,836)</u>	<u>(1,842)</u>	<u>(25,854)</u>
Capital expenditures on								
– fixed assets	557	704	1,261	2,463	—	876	58	4,658
– other intangible assets	433	—	433	128	—	299	117	977

* "Others" segment as at and for the year ended 31 December 2004 is comprised of Sri Lanka, Ghana, Corporate as well as the Group's non-telecommunications businesses in Hong Kong, the People's Republic of China, Malaysia and Singapore.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

7. Segment information (continued)

	As at and for the year ended 31 December 2005							Total
	Hong Kong and Macau			India	Israel	Thailand	Others*	
	Mobile	Fixed-line	subtotal					
	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.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

7. Segment information (continued)

	As at and for the year ended 31 December 2006							Total
	Hong Kong and Macau			India	Israel	Thailand	Others*	
	Mobile	Fixed-line	subtotal					
	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)	<u>247</u>	<u>259</u>	<u>506</u>	<u>3,628</u>	<u>1,752</u>	<u>(501)</u>	<u>(340)</u>	<u>5,045</u>
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	<u>7,986</u>	<u>10,794</u>	<u>18,780</u>	<u>38,172</u>	<u>12,795</u>	<u>5,072</u>	<u>4,899</u>	<u>79,718</u>
Total liabilities	<u>(7,291)</u>	<u>(6,161)</u>	<u>(13,452)</u>	<u>(24,105)</u>	<u>(6,885)</u>	<u>(10,562)</u>	<u>(2,297)</u>	<u>(57,301)</u>
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.

NOTES TO THE ACCOUNTS

8. Staff costs

	2004	2005	2006
	HK\$ millions		
Wages and salaries	1,430	2,117	2,339
Termination benefits	89	72	49
Pension costs			
– defined benefits plans (Note 26(b)(i))	36	(18)	12
– defined contribution plans	25	39	36
Share-based payments			
– equity settled	6	109	116
– cash settled (Note (i) and Note 24)	—	—	114
	<u>1,586</u>	<u>2,319</u>	<u>2,666</u>

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.

(a) Directors’ emoluments

Name of Director	Year ended 31 December 2004					Total HK\$ millions
	Fees	Basic salaries, allowance and benefits-in-kind	Bonus	Provident fund contributions	Share-based payments	
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	
FOK Kin-ning, Canning	0.28	—	—	—	—	0.28
CHOW WOO Mo Fong, Susan	0.28	—	—	—	—	0.28
Frank John SIXT	0.27	—	—	—	—	0.27
Dennis Pok Man LUI	0.21	3.63	8.60	0.26	—	12.70
Tim Lincoln PENNINGTON	0.21	2.52	1.38	0.40	—	4.51
CHAN Ting Yu	0.21	2.95	2.04	0.19	—	5.39
KWAN Kai Cheong *	0.19	—	—	—	—	0.19
John W STANTON *	0.19	—	—	—	—	0.19
Kevin WESTLEY *	0.19	—	—	—	—	0.19
	<u>2.03</u>	<u>9.10</u>	<u>12.02</u>	<u>0.85</u>	<u>—</u>	<u>24.00</u>

* Mr. Kwan Kai Cheong, Mr. John W. Stanton and Mr. Kevin Westley were appointed as directors of the Company on 23 August 2004.

NOTES TO THE ACCOUNTS

8. Staff costs (continued)

(a) Directors' emoluments (continued)

Name of Director	Year ended 31 December 2005					
	Fees	Basic salaries, allowance and benefits-in-kind	Bonus	Provident fund contributions	Share-based payments	Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
FOK Kin-ning, Canning	0.39	—	—	—	—	0.39
Dennis Pok Man LUI	0.27	3.52	10.00	0.27	9.40	23.46
Tim Lincoln PENNINGTON	0.27	3.47	2.48	0.56	3.48	10.26
Frank John SIXT	0.31	—	—	—	—	0.31
Naguib SAWIRIS (a)	0.01	—	—	—	—	0.01
Aldo MAREUSE (a)	0.01	—	—	—	—	0.01
KWAN Kai Cheong	0.63	—	—	—	—	0.63
John W STANTON	0.55	—	—	—	—	0.55
Kevin WESTLEY	0.63	—	—	—	—	0.63
CHOW WOO Mo Fong, Susan (b)	0.31	—	—	—	—	0.31
CHAN Ting Yu (c)	0.26	2.85	2.45	0.20	3.48	9.24
WOO Chiu Man, Cliff (d)	0.22	2.19	2.16	0.14	2.44	7.15
NARDI, Kar Wai Agnes (e)	0.10	2.85	2.00	0.19	2.78	7.92
	<u>3.96</u>	<u>14.88</u>	<u>19.09</u>	<u>1.36</u>	<u>21.58</u>	<u>60.87</u>

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 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	Year ended 31 December 2006					
	Fees	Basic salaries, allowance and benefits-in-kind	Bonus	Provident fund contributions	Share-based payments	Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
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
	<u>3.57</u>	<u>7.07</u>	<u>13.73</u>	<u>0.89</u>	<u>19.35</u>	<u>44.61</u>

No emoluments were paid to any directors as inducements to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2004, 2005 and 2006.

NOTES TO THE ACCOUNTS

8. Staff costs (continued)

(b) Five highest paid individuals

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

	<u>2004</u> <u>Number of</u> <u>individual</u>	<u>2005</u> <u>Number of</u> <u>individual</u>	<u>2006</u> <u>Number of</u> <u>individual</u>
Directors of the Company	2	2	2
Non-directors of the Company			
Executive of the Company	1	—	1
Directors of certain subsidiaries of the Company	2	3	2

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>		
Basic salaries, allowances and benefits-in-kind	9	8	9
Bonuses	8	11	14
Provident fund contributions	1	1	1
Share-based payments	—	13	11
	<u>18</u>	<u>33</u>	<u>35</u>

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

	<u>2004</u> <u>Number of</u> <u>individual</u>	<u>2005</u> <u>Number of</u> <u>individual</u>	<u>2006</u> <u>Number of</u> <u>individual</u>
HK\$5,000,001 — HK\$5,500,000	1	—	—
HK\$6,000,001 — HK\$6,500,000	1	—	—
HK\$7,000,001 — HK\$7,500,000	1	—	—
HK\$9,500,001 — HK\$10,000,000	—	1	—
HK\$10,500,001 — HK\$11,000,000	—	1	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 2004, 2005 and 2006.

9. Other operating expenses

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>		
Cost of services provided	4,989	8,673	11,668
General administrative and distribution costs	1,857	2,087	4,265
Impairment loss on fixed assets	142	—	16
Loss on disposal of fixed assets	2	7	15
Write-off of customer acquisition and retention costs	150	99	26
Operating leases in respect of			
— buildings	540	729	919
— hire of plant and machinery	453	458	441
Auditors' remuneration	20	34	74
Provision for trade receivables	153	281	307
Exchange (gain) / loss	(79)	18	(9)
Others	686	870	608
	<u>8,913</u>	<u>13,256</u>	<u>18,330</u>

10. Profit on disposal of investments and others, net

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	HK\$ millions		
Net (loss) / profit on partial disposal of subsidiaries	1,300	44	(1)
Negative goodwill on additional equity interests in a subsidiary acquired	—	27	—
Negative goodwill on acquisition of transmission business	—	—	45
	<u>1,300</u>	<u>71</u>	<u>44</u>

(i) Year ended 31 December 2004

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

(ii) 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, 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.

(iii) 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.

NOTES TO THE ACCOUNTS

11. Interest and other finance costs, net

	<u>2004</u>	<u>2005</u> HK\$ millions	<u>2006</u>
Interest income	<u>24</u>	<u>65</u>	<u>121</u>
Interest and other finance costs			
Bank loans	393	911	1,496
Other loans repayable within 5 years	71	37	628
Other loans not wholly repayable within 5 years	1	1	18
Obligations under finance leases	—	3	3
Notes and debentures repayable within 5 years	58	3	—
Notes and debentures not wholly repayable within 5 years	—	359	139
Amounts due to related companies	178	92	—
Notional non-cash interest accretion (Note)	147	149	287
Guarantee and other finance fees	219	206	210
Net exchange loss on borrowings	—	—	16
	<u>1,067</u>	<u>1,761</u>	<u>2,797</u>
Less: interest capitalised	<u>(28)</u>	<u>(5)</u>	<u>(129)</u>
	<u>1,039</u>	<u>1,756</u>	<u>2,668</u>
Fair value loss / (gain) on derivative instruments:			
Currency swap	—	(4)	9
Cross-currency interest rate swap	—	(5)	4
Forward foreign exchange contracts	—	(78)	82
	<u>1,039</u>	<u>1,669</u>	<u>2,763</u>
Interest and other finance costs, net	<u>1,015</u>	<u>1,604</u>	<u>2,642</u>
Capitalisation rate applied to funds borrowed for the funding of assets	<u>1.9% -6.6%</u>	<u>2.2% -4.6%</u>	<u>4.8% -7.5%</u>

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

	<u>2004</u>	<u>2005</u> HK\$ millions	<u>2006</u>
Share of profits less losses of associates	738	173	(1)
Share of interest and other finance costs of associates	(186)	(40)	—
Share of taxation charge of associates	(214)	(47)	—
	<u>338</u>	<u>86</u>	<u>(1)</u>

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

13. Taxation

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006		
	Current taxation	Deferred taxation	Total	Current taxation	Deferred taxation	Total	Current taxation	Deferred taxation	Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	4	102	106	31	6	37	(2)	—	(2)
Outside Hong Kong	101	(22)	79	198	199	397	898	(70)	828
	<u>105</u>	<u>80</u>	<u>185</u>	<u>229</u>	<u>205</u>	<u>434</u>	<u>896</u>	<u>(70)</u>	<u>826</u>

Hong Kong profits tax has been provided for at the rate of 17.5% (2005 — 17.5%, 2004 — 17.5%) on the estimated assessable profits less available tax losses. Taxation outside Hong Kong has been provided for at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits less available tax losses. The differences between the Group's expected tax charge / (credit) at respective applicable tax rates and the Group's tax charge for the years were as follows:

	2004	2005	2006
	HK\$ millions		
Tax calculated at the domestic rates applicable to profits in the country concerned	(146)	1,143	619
Income not subject to taxation	(202)	(803)	(278)
Expenses not deductible for taxation purposes	156	126	115
Recognition of previously unrecognised tax losses of subsidiaries	(268)	(729)	(693)
(Over) / under provision in prior year	2	22	(21)
Tax losses not recognised	643	673	1,084
Effect of change in tax rate	—	2	—
Total taxation charge	<u>185</u>	<u>434</u>	<u>826</u>

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

The tax holiday benefits and effect on earnings per share for the years were as follows:

	2004	2005	2006
Tax holiday benefits (HK\$ millions)	<u>212</u>	<u>474</u>	<u>577</u>
Earnings per share – basic (HK\$ per share)	<u>0.05</u>	<u>0.10</u>	<u>0.12</u>
Earnings per share – diluted (HK\$ per share)	<u>0.05</u>	<u>0.10</u>	<u>0.12</u>

The tax holiday benefits arose principally from the Company's Indian mobile telecommunications operation and will expire in 2011.

NOTES TO THE ACCOUNTS

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:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	HK\$ millions		
Turnover	115	60	—
Cost of inventories sold	(27)	(11)	—
Staff costs	(17)	(9)	—
Depreciation and amortisation	(33)	(16)	—
Other operating expenses	(92)	(40)	—
Operating loss and loss before taxation	(54)	(16)	—
Taxation charge	—	—	—
Loss of discontinued operations	(54)	(16)	—
Loss on disposal of discontinued operations	—	(336)	—
Loss from discontinued operations	(54)	(352)	—
Cash flows used in operating activities	(21)	—	—
Cash flows generated from / (used in) investing activities	(19)	190	—
Total cash flows	<u>(40)</u>	<u>190</u>	<u>—</u>

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 2004, 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.

NOTES TO THE ACCOUNTS

16. Earnings / (loss) per share

Basic

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

	2004	2005	2006
Weighted average number of shares in issue	4,500,000,000	4,602,460,429	4,754,324,568
Profit / (loss) from continuing operations attributable to equity holders of the Company (HK\$ millions)	24	(416)	201
Basic earnings / (loss) per share from continuing operations (HK\$ per share)	0.01	(0.09)	0.04
Loss from discontinued operations attributable to equity holders of the Company (HK\$ millions)	(54)	(352)	—
Basic loss per share from discontinued operations (HK\$ per share)	(0.01)	(0.08)	N/A
Profit / (loss) attributable to equity holders of the Company (HK\$ millions)	(30)	(768)	201
Basic earnings / (loss) per share attributable to equity holders of the Company (HK\$ per share)	(0.01)	(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.

	2004	2005	2006
Weighted average number of shares in issue	4,500,000,000	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	4,500,000,000	4,602,460,429	4,772,564,446
Diluted earnings / (loss) per share from continuing operations (HK\$ per share)	0.01	(0.09)	0.04
Diluted loss per share from discontinued operations (HK\$ per share)	(0.01)	(0.08)	N/A
Diluted earnings / (loss) per share attributable to equity holders of the Company (HK\$ per share)	(0.01)	(0.17)	0.04

Note: There were no potential ordinary shares as at 31 December 2004. The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share for the year ended 31 December 2005. Accordingly, the weighted average number of shares were not adjusted for the year ended 31 December 2004 and 2005 for computing the diluted earnings / (loss) per share.

NOTES TO THE ACCOUNTS

17. Trade and other receivables

	Note	2005	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
		<u>10,009</u>	<u>10,090</u>

(a) Trade receivables, net of provision

	2005	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
	<u>3,265</u>	<u>3,563</u>

Analysis of provision for trade receivables is as follows:

	2005	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	<u>822</u>	<u>909</u>

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	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)	<u>2,647</u>	<u>3,657</u>
	<u>6,658</u>	<u>6,477</u>

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

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.

NOTES TO THE ACCOUNTS

18. Derivative financial assets and liabilities

(a) Derivative financial assets

	<u>2005</u>	<u>2006</u>
	<u>HK\$</u>	<u>millions</u>
Currency swap	—	13
Forward foreign exchange contracts	8	10
Cross currency interest rate swap	<u>1</u>	<u>—</u>
	<u>9</u>	<u>23</u>

(b) Derivative financial liabilities

	<u>2005</u>	<u>2006</u>
	<u>HK\$</u>	<u>millions</u>
Currency swap	107	145
Forward foreign exchange contracts	<u>9</u>	<u>40</u>
	<u>116</u>	<u>185</u>

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.

NOTES TO THE ACCOUNTS

19. Fixed assets

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

	<u>Buildings</u>	<u>Telecommunications and network equipment</u>	<u>Construction in progress</u>	<u>Others</u>	<u>Total</u>
	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	<u>210</u>	<u>34,360</u>	<u>1,300</u>	<u>6,315</u>	<u>42,185</u>
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	<u>49</u>	<u>13,663</u>	<u>—</u>	<u>3,882</u>	<u>17,594</u>
Net book value					
As at 31 December 2005	<u>161</u>	<u>20,697</u>	<u>1,300</u>	<u>2,433</u>	<u>24,591</u>

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

19. Fixed assets (continued)

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

	<u>Buildings</u>	<u>Telecommunications and network equipment</u>	<u>Construction in progress</u>	<u>Others</u>	<u>Total</u>
	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	<u>230</u>	<u>43,539</u>	<u>2,750</u>	<u>7,050</u>	<u>53,569</u>
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	<u>53</u>	<u>16,753</u>	<u>—</u>	<u>4,801</u>	<u>21,607</u>
Net book value					
As at 31 December 2006	<u>177</u>	<u>26,786</u>	<u>2,750</u>	<u>2,249</u>	<u>31,962</u>

NOTES TO THE ACCOUNTS

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:

	<u>2005</u>	<u>2006</u>
	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
	<u>161</u>	<u>177</u>

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

	<u>2005</u>	<u>2006</u>
	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	<u>583</u>	<u>480</u>
Depreciation during the year	<u>126</u>	<u>132</u>
Impairment loss during the year	<u>—</u>	<u>—</u>
(ii) Other assets held under finance leases		
Cost	73	58
Accumulated depreciation and impairment losses	(5)	(9)
Net book value	<u>68</u>	<u>49</u>
Depreciation during the year	<u>5</u>	<u>5</u>
Impairment loss during the year	<u>—</u>	<u>—</u>

20. Goodwill

	Note	2005	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		<u>9,688</u>	<u>19,571</u>
Accumulated impairment losses at beginning and end of year		<u>—</u>	<u>—</u>

(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.

NOTES TO THE ACCOUNTS

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	2006
	HK\$ millions	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
	<u>9,688</u>	<u>19,571</u>

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%

NOTES TO THE ACCOUNTS

21. Other intangible assets

	Telecommunications licences	Customer acquisition and retention costs	Brand name	Customer base	Total
	HK\$ millions				
As at 1 January 2005					
Cost	4,638	728	—	—	5,366
Accumulated amortisation	(1,082)	(425)	—	—	(1,507)
Net book value	<u>3,556</u>	<u>303</u>	<u>—</u>	<u>—</u>	<u>3,859</u>
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	<u>5,336</u>	<u>301</u>	<u>652</u>	<u>2,893</u>	<u>9,182</u>
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	<u>5,336</u>	<u>301</u>	<u>652</u>	<u>2,893</u>	<u>9,182</u>

NOTES TO THE ACCOUNTS

21. Other intangible assets (continued)

	<u>Telecommunications licences</u>	<u>Customer acquisition and retention costs</u>	<u>Brand name</u>	<u>Customer base</u>	<u>Total</u>
	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	<u>6,832</u>	<u>366</u>	<u>674</u>	<u>2,888</u>	<u>10,760</u>
As at 31 December 2006					
Cost	10,105	1,179	753	3,631	15,668
Accumulated amortisation	<u>(3,273)</u>	<u>(813)</u>	<u>(79)</u>	<u>(743)</u>	<u>(4,908)</u>
Net book value	<u>6,832</u>	<u>366</u>	<u>674</u>	<u>2,888</u>	<u>10,760</u>

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

NOTES TO THE ACCOUNTS

22. Other non-current assets

	Note	2005	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
		<u>2,067</u>	<u>3,829</u>

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

	2005	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	<u>1,344</u>	<u>1,425</u>

- (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.

NOTES TO THE ACCOUNTS

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:

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
Deferred tax assets	918	997
Deferred tax liabilities	(963)	(1,075)
Net deferred tax liabilities	<u>(45)</u>	<u>(78)</u>

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

	<u>Accelerated depreciation allowance</u>	<u>Tax losses</u>	<u>Fair value adjustments arising from business combination</u>	<u>Other temporary differences</u>	<u>Total</u>
	<u>HK\$ millions</u>				
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	<u>(635)</u>	<u>1,454</u>	<u>(937)</u>	<u>73</u>	<u>(45)</u>
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	<u>(2,044)</u>	<u>2,775</u>	<u>(913)</u>	<u>104</u>	<u>(78)</u>

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

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
Arising from unused tax losses	2,578	2,986
Arising from depreciation allowances	—	231
Arising from other temporary differences	<u>—</u>	<u>486</u>

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

Out of the total unrecognised tax losses of HK\$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:

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
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	<u>1,180</u>	<u>1,905</u>
	<u>4,013</u>	<u>6,270</u>

NOTES TO THE ACCOUNTS

24. Trade and other payables

	Note	2005	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
		<u>10,535</u>	<u>13,479</u>

	2005	2006
	HK\$ millions	
(a) Trade payables		
The ageing analysis of the trade payables is as follows:		
Current	586	1,150
31–60 days	560	504
61–90 days	660	521
Over 90 days	400	356
	<u>2,206</u>	<u>2,531</u>

NOTES TO THE ACCOUNTS

25. Borrowings

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

The maturity of borrowings is as follows:

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

NOTES TO THE ACCOUNTS

25. Borrowings (continued)

The non-current borrowings are repayable as follows:

	2005	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
	<u>19,002</u>	<u>23,369</u>

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	Non-current portion	Total borrowings	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
	<u>7,690</u>	<u>19,002</u>	<u>26,692</u>	<u>1,314</u>

	As at and for the year ended 31 December 2006			
	Current portion	Non-current portion	Total borrowings	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
	<u>16,048</u>	<u>23,369</u>	<u>39,417</u>	<u>2,284</u>

NOTES TO THE ACCOUNTS

25. Borrowings (continued)

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

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
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	<u>—</u>	<u>5</u>
	35	592
Future finance charges on finance lease obligations	<u>(3)</u>	<u>(8)</u>
Present value of finance lease obligations	<u>32</u>	<u>584</u>
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	<u>—</u>	<u>2</u>
	<u>32</u>	<u>584</u>

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

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
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	<u>16</u>	<u>—</u>
	<u>26,692</u>	<u>39,417</u>

NOTES TO THE ACCOUNTS

25. Borrowings (continued)

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

	Maturity date	2005	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

NOTES TO THE ACCOUNTS

25. Borrowings (continued)

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 30 June 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

	<u>Note</u>	<u>2005</u>	<u>2006</u>
		<u>HK\$ millions</u>	
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		<u>14</u>	<u>336</u>
		<u>1,333</u>	<u>2,992</u>

26. Other non-current liabilities (continued)

(a) Licence fees liabilities

	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>	
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	<u>1,446</u>	<u>2,462</u>
	2,527	4,755
Future finance charges on licence fees liabilities	<u>(1,141)</u>	<u>(1,947)</u>
Present value of licence fees liabilities	<u>1,386</u>	<u>2,808</u>
The present value of licence fees liabilities is as follows:		
Current portion of licence fees liabilities (Note 24)	<u>161</u>	<u>259</u>
Non-current licence fees liabilities:		
After 1 year, but within 5 years	386	1,446
After 5 years	<u>839</u>	<u>1,103</u>
	1,225	2,549
Total licence fees liabilities	<u>1,386</u>	<u>2,808</u>

(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:

	<u>2005</u>	<u>2006</u>
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%

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<u>HK\$ millions</u>		
The amount recognised in the consolidated income statement:			
Current service cost	44	39	26
Interest cost	15	11	8
Expected return on scheme assets	(24)	(20)	(15)
(Gains) / losses on curtailments and settlements	<u>1</u>	<u>(48)</u>	<u>(7)</u>
Total, included in staff costs	<u>36</u>	<u>(18)</u>	<u>12</u>

26. Other non-current liabilities (continued)

(b) Pension obligations (continued)

(i) Defined benefit plans (continued)

	2005	2006
	HK\$ millions	
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	<u>12</u>	<u>15</u>
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	<u>—</u>	<u>—</u>
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	<u>205</u>	<u>202</u>
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	<u>193</u>	<u>187</u>
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
	<u>193</u>	<u>187</u>

26. Other non-current liabilities (continued)

(b) Pension obligations (continued)

(i) Defined benefit plans (continued)

	<u>2005</u>	<u>2006</u>
	HK\$ millions	
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	<u>—</u>	<u>(9)</u>
	<u>(12)</u>	<u>(15)</u>
Experience adjustments on plan assets	<u>12</u>	<u>15</u>
Percentage of plan assets (%)	<u>6</u>	<u>8</u>
Experience adjustments on plan obligations	<u>(13)</u>	<u>(12)</u>
Percentage of plan obligations (%)	<u>6</u>	<u>6</u>

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.

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, 2004 – HK\$1 million) were used to reduce the current year's level of contribution.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

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

	<u>Number of shares</u>	<u>Issued and fully paid</u> <u>HK\$ millions</u>
Upon incorporation on 17 March 2004	—	—
Issued during the period (Note)	<u>4,500,000,000</u>	<u>1,125</u>
Balance at 31 December 2004	<u>4,500,000,000</u>	<u>1,125</u>
Balance at 1 January 2005	<u>4,500,000,000</u>	<u>1,125</u>
Issued during the year (Notes 20(a)(i) and 29(e))	<u>252,546,209</u>	<u>63</u>
Balance at 31 December 2005	<u>4,752,546,209</u>	<u>1,188</u>
Balance at 1 January 2006	<u>4,752,546,209</u>	<u>1,188</u>
Issued during the year (Note 27(b))	<u>13,426,333</u>	<u>3</u>
Balance at 31 December 2006	<u>4,765,972,542</u>	<u>1,191</u>

Note: On 25 March 2004, one ordinary share of US\$1.00 was allotted and issued for cash at par to the initial subscriber who immediately transferred the said one share to Hutchison Telecommunications Investment Holdings Limited (“HTIHL”). On 3 September 2004, four ordinary shares of US\$1.00 each were allotted and issued for cash at par to HTIHL. On the same date, the nominal value of the Company’s shares was changed from US\$1.00 to HK\$0.25 through the following steps:

- (i) the issued share capital of US\$5.00 were re-denominated to HK\$39 by adopting the exchange rate of US\$1.00 to HK\$7.8;
- (ii) every issued and unissued share of HK\$7.8 was subdivided into 780 shares of HK\$0.01 each;
- (iii) every 25 shares of HK\$0.01 each in the Company’s issued and unissued share capital were consolidated into one share of HK\$0.25.

On 22 September 2004, 804,917,650 shares were allotted and issued, credited as fully paid, to HTIHL for a consideration of HK\$6,975,953,205.54. On the same day, 3,695,082,194 shares were allotted and issued, credited as fully paid, to HTIHL as consideration for the acquisition of the entire issued share capital of Hutchison Telecommunications International (Cayman) Holdings Limited (“HTICHL”) and for the capitalisation of the loans extended to HTICHL.

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	<u>HK\$8.70</u>	<u>76,300</u>	<u>HK\$8.70</u>	<u>50,457</u>

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.

NOTES TO THE ACCOUNTS

28. Reserves

	<u>Share premium</u>	<u>Accumulated losses</u>	<u>Cumulative translation adjustments</u>	<u>Fair value and other reserves</u>	<u>Investment revaluation reserves</u>	<u>Total</u>
	HK\$ millions					
Balance at 1 January 2004	—	(6,490)	(233)	7	—	(6,716)
Currency translation differences	—	—	(9)	—	—	(9)
Issuance of ordinary shares	19,744	—	—	—	—	19,744
Shares issuance expenses	(414)	—	—	—	—	(414)
Waiver of loan from an intermediate holding company	—	146	—	—	—	146
Loss attributable to equity holders of the Company for the year	—	(30)	—	—	—	(30)
Employee share option scheme – value of services provided	—	—	—	18	—	18
Actuarial losses of defined benefits plans	—	(34)	—	—	—	(34)
Balance at 31 December 2004	<u>19,330</u>	<u>(6,408)</u>	<u>(242)</u>	<u>25</u>	<u>—</u>	<u>12,705</u>
Balance at 31 December 2004	<u>19,330</u>	<u>(6,408)</u>	<u>(242)</u>	<u>25</u>	<u>—</u>	<u>12,705</u>
Adjustment in respect of changes in accounting policy for financial instruments	—	20	—	—	—	20
Balance at 1 January 2005	<u>19,330</u>	<u>(6,388)</u>	<u>(242)</u>	<u>25</u>	<u>—</u>	<u>12,725</u>
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	<u>21,187</u>	<u>(7,114)</u>	<u>(441)</u>	<u>117</u>	<u>1,233</u>	<u>14,982</u>
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	<u>21,187</u>	<u>(7,123)</u>	<u>(432)</u>	<u>117</u>	<u>1,233</u>	<u>14,982</u>
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	<u>21,341</u>	<u>(6,915)</u>	<u>(368)</u>	<u>177</u>	<u>1,233</u>	<u>15,468</u>

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

NOTES TO THE ACCOUNTS

29. Notes to consolidated cash flow statement

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	HK\$ millions		
(a) Purchases of subsidiaries			
Net assets acquired (excluding cash and cash equivalents):			
Fixed assets (Note 19)	84	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	3	—	—
Stocks	—	168	3
Trade and other receivables	282	1,303	262
Borrowings (Note (d))	(128)	(5,409)	(3,238)
Trade and other payables	(304)	(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))	8	(1,926)	—
	<u>(55)</u>	<u>3,916</u>	<u>1,966</u>
Less: Investments amount held prior to purchase	(14)	(1,757)	—
Less: Investments revaluation reserve upon acquisition	—	(1,233)	—
	<u>(69)</u>	<u>926</u>	<u>1,966</u>
Discharged by:			
Cash payment	—	934	—
Less: Cash and cash equivalents acquired	(69)	(8)	(41)
Total net cash consideration	(69)	926	(41)
Prepayment for acquisition of subsidiaries	—	—	2,007
	<u>(69)</u>	<u>926</u>	<u>1,966</u>
(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)
	<u>—</u>	<u>—</u>	<u>169</u>
Discharged by:			
Cash payment	—	—	124
Negative goodwill recognised directly in the consolidated income statement (Note 5(b))	—	—	45
	<u>—</u>	<u>—</u>	<u>169</u>

NOTES TO THE ACCOUNTS

29. Notes to consolidated cash flow statement (continued)

	2004	2005	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

(d) Analysis of changes in financing during the year

	Amounts due to related companies	Borrowings	Minority interest	Total
	HK\$ millions			
As at 1 January 2004	22,903	12,968	695	36,566
New loans	479	9,142	—	9,621
Repayment of loans	(725)	(5,094)	—	(5,819)
Net cash flows from financing activities	(246)	4,048	—	3,802
Minority interest in profit	—	—	270	270
Exchange translation differences	—	282	(64)	218
Relating to subsidiaries acquired (Note (a))	—	128	(8)	120
Relating to a subsidiary partially disposed of	—	—	153	153
Shareholders' loans capitalisation	(22,925)	—	—	(22,925)
Share issuance expenses	414	—	—	414
Waiver of loan from an intermediate holding company	(146)	—	—	(146)
Share of other reserves	—	—	3	3
Actuarial losses of defined benefits plans	—	—	(13)	(13)
As at 31 December 2004	—	17,426	1,036	18,462

NOTES TO THE ACCOUNTS

29. Notes to consolidated cash flow statement (continued)

(d) Analysis of changes in financing during the year (continued)

	<u>Borrowings</u>	<u>Minority interest</u> HK\$ millions	<u>Total</u>
As at 31 December 2004	17,426	1,036	18,462
Adjustment in respect of changes in accounting policy for financial instruments	129	(36)	93
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	<u>26,692</u>	<u>3,652</u>	<u>30,344</u>
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	<u>39,417</u>	<u>5,758</u>	<u>45,175</u>

NOTES TO THE ACCOUNTS

29. Notes to consolidated cash flow statement (continued)

(e) Significant non-cash transactions

During the year ended 31 December 2004, as part of the Restructuring, HK\$22,925 million of the amounts due to related companies was offset with HK\$2,056 million amounts due from related companies, and the net amount of HK\$20,869 million was capitalised on 22 September 2004 as share capital and share premium of the Company.

During the year ended 31 December 2005, the Group privatised HGCH by way of scheme of arrangement (Note 20(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. The claim was subsequently dismissed in March 2007.
- (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. Subsequently, all claims against the Group's subsidiaries in India were indirectly disposed of when Vodafone International Holdings B.V. acquired CGP Investments (Holdings) Limited, a company which held all of the Company's direct and indirect equity and loan interests in its Indian mobile telecommunications operation, from the Company (see Note 34(a)).

31. Commitments

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

(a) Capital commitments

	Telecommunications, mobile network		Telecommunications, fixed network	
	2005	2006	2005	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
	<u>15,579</u>	<u>17,859</u>	<u>922</u>	<u>628</u>

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.

NOTES TO THE ACCOUNTS

31. Commitments (continued)

(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	2006	2005	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
	<u>2,187</u>	<u>3,848</u>	<u>361</u>	<u>458</u>

(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.

(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.

31. Commitments (continued)

(e) Funding commitments (continued)

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).

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33. Related party transactions (continued)

(ii) Transactions with Hutchison Group:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	HK\$ millions		
Provision for fixed telecommunications and other services	(51)	(72)	(68)
Provision for mobile telecommunications services income	(14)	(19)	(22)
Rental expenses on lease arrangements	85	72	57
Bill collection services fee expenses	8	11	11
Roaming arrangement fee income	(14)	(1)	(3)
Sharing of services arrangements	22	30	29
Dealership services fee expenses	10	11	21
Global procurement services arrangements expense	82	26	26
Provision of data center services	(20)	(17)	(19)
Sales of handsets	(46)	—	—
3G handset development costs recharge income	(47)	—	—
Purchase of handset and accessories	32	965	1,239
Purchase of office supplies	6	6	7
Advertising and promotion expenses	5	6	17
Guarantee and other finance fees	152	142	95
Interest expense on amounts due to related companies	178	92	—
Interest income on non-current amount due from a related company	—	—	(6)
Waiver of loan	<u>146</u>	<u>—</u>	<u>—</u>

(iii) Balances with Hutchison Group:

Receivables from related companies	(a)	86	50
Payables to related companies	(b)	(153)	(99)
Non-current amount due from a related company	(c)	<u>—</u>	<u>117</u>

(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 CGP Investments (Holdings) Limited (“CGP”)

On 11 February 2007, the Company entered into an agreement (the “Agreement”) to sell its entire interest in CGP, a company which held all of the Company’s direct and indirect equity and loan interests in its Indian mobile telecommunications operation, comprising Hutchison Essar and its subsidiaries (the “Sale Group”) to Vodafone International Holdings B.V. (“Vodafone”), 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”).

Subsequently, ETH and certain affiliates (“Essar”) asserted various rights in relation to the Transaction and 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, upon completion of the Transaction, the Company agreed to make scheduled payments aggregating US\$415 million (approximately HK\$3,243 million) before interest (the “Settlement Amount”), of which US\$373.5 million (approximately HK\$2,906 million) has now been paid.

On 8 May 2007, the Company completed the Transaction. In consideration of Vodafone’s agreement to waive certain potential claims against the Company under the Agreement, the Company agreed to a retention from the consideration of an amount of US\$352 million (approximately HK\$2,750 million) (the “Retention Amount”). By a deed entered into on 8 May 2007 by Vodafone and the Company (the “Supplemental Deed”), the parties agreed the basis and the terms on which Vodafone is entitled to apply an equivalent sum of the Retention Amount to meet certain specified liabilities which Vodafone may incur in connection with the interests effectively acquired through the Transaction during a period of up to ten years following the date of completion of the Transaction (the “Retention Period”). If and to the extent such specified liabilities are not incurred and the Retention Amount is not applied by the end of the Retention Period, Vodafone shall return such unutilised part of the Retention Amount to the Company together with interest thereon. Having regard to the terms surrounding the retention and release of any Retention Amount, the Company has made a full provision against recovery of any part of the Retention Amount.

From the Transaction, (i) the estimated before tax gain expected to be realised by the Group is approximately US\$9,000 million (approximately HK\$70,000 million) after taking into account the Settlement Amount, the Retention Amount, interest on the consideration and transaction costs and expenses; and (ii) the Group realised a net cash inflow of approximately US\$10,830 million (approximately HK\$84,700 million) before payment of the Settlement Amount.

34. Subsequent events (continued)

(b) Petition alleging breach of foreign direct investment 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 Indian government, the Company, Hutchison Essar, and various other Indian parties as respondents. The Petition alleged, amongst other things, 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 Indian regulations governing foreign direct investment (the "FDI Regulations"). The Petition also alleged that the Company had entered into arrangements with respect to certain Indian shareholders of Hutchison Essar which were *benami* transactions, meaning they were allegedly transactions in which property is transferred to one person for a consideration paid or provided by another person, and therefore prohibited under Indian law. The Petition sought orders of the court 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 and directed the authorities to consider the issues raised in the Petition as well. The court also declined to require any of the respondents, including the Company and Hutchison Essar, to respond to the Petition.

Subsequent to completion of the Transaction after the Indian governmental authorities had granted approval of the Transaction on certain conditions, the petitioner has sought to revive the Petition principally on the ground that the petitioner is not satisfied with the decision of the Indian governmental authorities that the shareholding arrangements with respect to certain Indian shareholders of Hutchison Essar were not *benami* transactions. On 28 May 2007, the court issued notice to all the respondents in the Petition to respond within four weeks. The court set a hearing date of 9 August 2007, leaving it open for the respondents to submit arguments as to why the petition should not be revived and should be rejected at the outset. The court also granted permission to the petitioner to amend the Petition in view of the decision of the Indian governmental authorities on the issues raised in the Petition subsequent to the original petition being filed. The Company considers that the Petition is without merit and will take all necessary steps to vigorously defend the allegations made against the Company.

(c) Declaration of special dividend

Following the completion of the Transaction (see Note 34(a)), on 22 May 2007, the Company declared a special cash dividend (the "Transaction Special Dividend") of HK\$6.75 per share, or approximately HK\$32,230 million in aggregate, payable on 29 June 2007. The Transaction Special Dividend will be paid out of the proceeds from the Transaction.

(d) Adjustment of the Company's share options exercise price

At an extraordinary general meeting held on 8 May 2007, the shareholders of the Company approved (i) a downward adjustment by an amount equal to the amount of the Transaction Special Dividend on a dollar-for-dollar basis to the exercise price of the share options of the Company that are outstanding and unvested as at the time of the payment of the Transaction Special Dividend; and (ii) the alteration of the terms of the Company's share option scheme to permit, upon the distribution by the Company of any cash (other than the Transaction Special Dividend or dividends in the ordinary course), the downward adjustment of the exercise price of any share option of the Company granted but not exercised as of the date of such distribution by an amount which the Directors consider as reflecting the impact of such distribution will have or will likely have on the trading price of the Company's shares.

After the date of payment of the Transaction Special Dividend (see Note 34(c)), the Company will announce the number of the Company's share options outstanding and unvested as at such date and the exercise price of such share options as adjusted by the payment of the Transaction Special Dividend in the manner approved by the shareholders of the Company at an extraordinary general meeting held on 8 May 2007.

(e) Repayment of debt and cancellation of loan facility

In May 2007, the outstanding balance under the Group's HK\$9 billion secured revolving loan facility (the "Facility"), which amounted to HK\$5,181 million as at 31 December 2006, was fully repaid out of the proceeds from the Transaction. Following the repayment, the Facility was fully cancelled and terminated on 30 May 2007.

35. US dollar equivalents

The US dollar equivalents of the figures shown in the accounts are supplementary information and have been translated at the

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED

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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. Reconciliation to US GAAP

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.

The HKFRS financial statements for the years ended 31 December 2004 have been restated to conform with HKFRS and Hong Kong Accounting Standards ("HKAS") (collectively referred as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The impact of the HKFRS is detailed in Note 2(b).

		2004 HK\$ millions (Restated)	2005 HK\$ millions	2006 HK\$ millions	2006 US\$ millions
(Loss)/profit attributable to equity holders of the Company under HKFRS		(30)	(768)	201	26
Adjustments:					
Revenue recognition	(a)	12	88	62	8
Customer acquisition and retention costs	(b)	(129)	61	(65)	(8)
Business combinations	(c)	(379)	(163)	(419)	(54)
Deferred financing fee	(e)	(21)	—	—	—
Termination benefits	(g)	20	(12)	(4)	—
Onerous contracts	(h)	69	(16)	(15)	(2)
Capitalisation of loans net of related interest	(i)	108	—	—	—
Pension cost	(j)	—	(67)	(1)	—
Share-based payments	(k)	21	(28)	—	—
Others	(l)	13	37	(9)	(1)
Deferred taxation	(m)	24	(24)	(103)	(14)
Minority interest		60	(23)	(140)	(18)
Loss attributable to equity holders of the Company under US GAAP		<u>(232)</u>	<u>(915)</u>	<u>(493)</u>	<u>(63)</u>
Loss per share attributable to equity holders of the Company					
—basic		HK\$ (0.05)	HK\$ (0.20)	HK\$ (0.10)	US\$ (0.01)
—diluted		<u>HK\$ (0.05)</u>	<u>HK\$ (0.20)</u>	<u>HK\$ (0.10)</u>	<u>US\$ (0.01)</u>
Shareholders' equity under HKFRS		13,830	16,170	16,659	2,141
Adjustments:					
Revenue recognition	(a)	(7)	80	143	18
Customer acquisition and retention costs	(b)	(365)	(282)	(348)	(45)
Business combinations	(c)	389	(1,014)	(1,488)	(191)
Reversal of goodwill amortisation expense	(c)	65	65	65	8
Impairment of goodwill	(d)	(719)	(719)	(719)	(92)
Derivatives	(f)	(44)	—	—	—
Termination benefits	(g)	20	7	3	—
Onerous contracts	(h)	69	54	39	5
Pension cost	(j)	65	(37)	(30)	(3)
Others	(l)	87	101	98	13
Deferred taxes	(m)	(738)	(747)	(863)	(111)
Minority interest		57	2	(210)	(27)
Shareholders' equity under US GAAP		<u>12,709</u>	<u>13,680</u>	<u>13,349</u>	<u>1,716</u>
Exchange translation adjustments	(n)	<u>(131)</u>	<u>(27)</u>	<u>(170)</u>	<u>(22)</u>

36. Reconciliation to US GAAP (continued)

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, 2004 – HK\$3,877 million).

36. Reconciliation to US GAAP (continued)

(c) Business combinations (continued)

(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

36. Reconciliation to US GAAP (continued)

(c) Business combinations (continued)

(ii) (continued)

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:

36. Reconciliation to US GAAP (continued)

(c) Business combinations (continued)

(iii) (continued)

	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 licensed 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.

36. Reconciliation to US GAAP (continued)

(e) Deferred financing fee

Under HKFRS, finance costs incurred prior to 2000 relating to the arrangement of loan facilities were recorded as expenses at the inception of arrangements.

Under US GAAP, these amounts are deferred and amortised over the term of the loan on a straight-line basis under which the amortised amount approximates the result obtained from the effective interest method.

(f) Derivatives

Under HKFRS, with the adoption of HKAS 32 and 39, derivative financial instruments are measured at fair value and recorded as assets or liabilities on the consolidated financial statements effective 1 January 2005. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Under US GAAP, derivative financial instruments are recorded as assets or liabilities at fair value in all prior periods. Therefore, there is a GAAP difference in 2004 due to transitional provisions under HKFRS.

(g) 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.

(h) 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.

(i) Capitalisation of loans net of related interest

Upon consummation of the Group's restructuring for initial public offering ("the Restructuring") in 2004, US GAAP requires that the Restructuring be accounted for as if it had been consummated as of the beginning of the periods presented. This resulted in the share capital of the Group when reconciled to US GAAP being retroactively restated for the effect of the capitalisation of the long-term amounts due to related companies in exchange for the shares in the Company issued to HWL. Pursuant to the Restructuring, HK\$20,869 million of the net amount due to related companies was capitalised on 22 September 2004 as share capital and share premium of the Company, which comprised of both amounts payable included in amounts due to related companies and amounts receivable included in amounts due from related companies on the balance sheet under HKFRS. In addition to this amount, retroactive effect has also been given to the interest expense related to the net amounts due to related companies. Thus, under US GAAP, the related interest expense till the date of capitalisation was debited against additional paid in capital. Under HKFRS, this interest expense was included in the income statement. Additionally, loss per share in accordance with SFAS 128, "Computation of Earnings per Share," has been disclosed as if the shares had been outstanding for the full year of 2004.

36. Reconciliation to US GAAP (continued)

(j) 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.

(k) 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.

36. Reconciliation to US GAAP (continued)

(l) 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, 2004 – HK\$2,329 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

36. Reconciliation to US GAAP (continued)

(l) Others (continued)

(iv) Lease arrangement (continued)

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.

(m) 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.

(n) 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 2004, the restated operating profit reported per HKFRS was HK\$1,156 million and the restated operating loss reported per US GAAP was HK\$558 million. The difference related to the classification of the profit on partial disposal of subsidiary company of HK\$1,300 million being included in the operating profit per HKFRS and the rest attributed to the differences between HKFRS and US GAAP described above.

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 is HK\$5,045 million and the operating profit reported per US GAAP is 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 HKFRS operating profit and the rest attributed to the differences between HKFRS and US GAAP described above.

Difference in presentation of minority interest

Under HKFRS, prior to 1 January 2005, minority interest in our results for the year was separately presented in the income statement as a deduction of profit or loss after tax before determining our net profit or loss attributable to shareholders (i.e. our equity holders). Upon adoption of HKAS 1 on 1 January 2005, minority interest is required to be included in the determination of our net profit or loss and total equity. This new presentation has been applied retrospectively and comparatives have been restated accordingly.

Under US GAAP, minority interest is deducted in the determination of our net income or loss and excluded from our total equity.

NOTES TO THE ACCOUNTS

36. Reconciliation to US GAAP (continued)

Condensed Consolidated Statement of Changes in Shareholders' Equity

	2004 HK\$ millions	2005 HK\$ millions	2006 HK\$ millions	2006 US\$ millions
Share Capital				
Balance, beginning of year	1,125	1,125	1,188	153
Issuance of ordinary shares	—	63	3	—
Balance, end of year	<u>1,125</u>	<u>1,188</u>	<u>1,191</u>	<u>153</u>
Additional paid-in capital				
Balance, beginning of year	19,417	19,041	20,959	2,704
Share issuance cost	(414)	—	—	—
Capitalisation of related company loans, net of interest	(108)	—	—	—
Waiver of loan from an intermediate holding company	146	—	—	—
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	<u>19,041</u>	<u>20,959</u>	<u>21,172</u>	<u>2,730</u>
Accumulated other comprehensive income (AOCI)				
Balance, beginning of year	—	—	—	—
Adjustment to AOCI	—	—	20	3
Balance, end of year	<u>—</u>	<u>—</u>	<u>20</u>	<u>3</u>
Accumulated deficits				
Balance, beginning of year, as previously reported	(7,140)	(7,084)	(7,999)	(1,032)
Restatement	288	—	—	—
Balance, beginning of year, as restated	(6,852)	(7,084)	(7,999)	(1,032)
Net loss attributable to equity holders of the Company	(232)	(915)	(493)	(63)
Transfer to additional paid-in capital	—	—	(4)	—
Balance, end of year	<u>(7,084)</u>	<u>(7,999)</u>	<u>(8,496)</u>	<u>(1,095)</u>
Cumulative translation adjustments				
Balance, beginning of year, as previously reported	(263)	(373)	(468)	(60)
Restatement	(275)	—	—	—
Balance, beginning of year, as restated	(538)	(373)	(468)	(60)
Translation adjustment	165	(214)	(70)	(15)
Related to subsidiary disposed of	—	119	—	—
Balance, end of year	<u>(373)</u>	<u>(468)</u>	<u>(538)</u>	<u>(75)</u>
Total shareholders' equity	<u>12,709</u>	<u>13,680</u>	<u>13,349</u>	<u>1,716</u>

Variable interest entities ("VIEs")

In 2005 and 2006, the Group conducts its operations in India and Thailand through entities in which the Company does 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.

NOTES TO THE ACCOUNTS

36. Reconciliation to US GAAP (continued)

Variable interest entities (“VIEs”) (continued)

The Group has also established an entity to facilitate the sale and leaseback transaction described in Note 1(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 <u>HK\$ millions</u>	Revenue for the year ended 31 December 2005 <u>HK\$ millions</u>	Total Assets as at 31 December 2006 <u>HK\$ millions</u>	Revenue for the year ended 31 December 2006 <u>HK\$ millions</u>
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
	2005 <u>HK\$ millions</u>	2006 <u>HK\$ millions</u>	2006 <u>HK\$ millions</u>
Balances and results as at and for the year ended 31 December			
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.

NOTES TO THE ACCOUNTS

36. Reconciliation to US GAAP (continued)**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 carried 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)
	<u>146</u>	<u>40</u>

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 3.15% of the total issued share capital of Partner as at the date of adoption of the 2004 Plan, 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% of the total number of shares in issue at the date of adoption of the said Plan.

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.

NOTES TO THE ACCOUNTS

36. Reconciliation to US GAAP (continued)

Share-based Payments (continued)

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

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 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

36. Reconciliation to US GAAP (continued)

Share-based Payments (continued)

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

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)	Weighted average exercise price (INR)
Outstanding options at beginning of the year	—	4,489	265.67
Granted	4,489	2,045	494.00
Exercised	N/A	N/A	N/A
Forfeited / Expired	—	(872)	416.08
Outstanding options at end of the year	4,489	5,662	324.96
Exercisable options at end of the year	N/A	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.

NOTES TO THE ACCOUNTS

36. Reconciliation to US GAAP (continued)

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 recognising 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.

The Companies Law (Revised)
Company Limited by Shares

ARTICLES OF ASSOCIATION

OF

Hutchison Telecommunications International Limited
和記電訊國際有限公司

(Adopted pursuant to a special resolution passed on 3 September, 2004, and amended
pursuant to the special resolutions passed on 5 May, 2005 and 8 May, 2007)

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INTERPRETATION

TABLE A

1. The regulations in Table A in the Schedule to the Companies Law (Revised) do not apply to the Company.

INTERPRETATION

2. (1) In these Articles, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

<u>WORD</u>	<u>MEANING</u>
“Articles”	these Articles in their present form or as supplemented or amended or substituted from time to time.
“associate”	the meaning attributed to it in the rules of the Designated Stock Exchange.
“Auditor”	the auditor of the Company for the time being and may include any individual or partnership.
“Board” or “Directors”	the board of directors of the Company or the directors present at a meeting of directors of the Company at which a quorum is present.
“capital”	the share capital from time to time of the Company.
“clear days”	in relation to the period of a notice that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
“clearing house”	a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.
“Company”	Hutchison Telecommunications International Limited 和記電訊國際有限公司.
“competent regulatory authority”	a competent regulatory authority in the territory where the shares of the Company are listed or quoted on a stock exchange in such territory.

“debenture” and “debenture holder”	include debenture stock and debenture stockholder respectively.
“Designated Stock Exchange”	a stock exchange in respect of which the shares of the Company are listed or quoted and where such stock exchange deems such listing or quotation to be the primary listing or quotation of the shares of the Company.
“dollars” and “HK\$”	dollars, the legal currency of Hong Kong.
“head office”	such office of the Company as the Directors may from time to time determine to be the principal office of the Company.
“Law”	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“Member”	a duly registered holder from time to time of the shares in the capital of the Company.
“month”	a calendar month.
“Notice”	written notice unless otherwise specifically stated and as further defined in these Articles.
“Office”	the registered office of the Company for the time being.
“ordinary resolution”	a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days’ Notice has been duly given;
“Ordinary Shares”	the ordinary shares of nominal value of HK\$0.25 each in the authorised capital of the Company issued subject to and in accordance with the provisions of the Law and of these Articles and having the rights provided for under these Articles;
“paid up”	paid up or credited as paid up.
“Preference Shares”	the non-voting redeemable preference shares of nominal value of US\$0.01 each in the authorised capital of the Company to be issued subject to and in accordance with Section 37 of the Law and these Articles and having the rights provided for under these Articles;

“Register”	the principal register and where applicable, any branch register of Members of the Company to be maintained at such place within or outside the Cayman Islands as the Board shall determine from time to time.
“Registration Office”	in respect of any class of share capital such place as the Board may from time to time determine to keep a branch register of Members in respect of that class of share capital and where (except in cases where the Board otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered.
“Seal”	common seal or any one or more duplicate seals of the Company (including a securities seal) for use in the Cayman Islands or in any place outside the Cayman Islands.
“Secretary”	any person firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary.
“special resolution”	a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if it is so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days’ Notice has been given; a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.

“Statutes”	the Law and every other law of the Legislature of the Cayman Islands for the time being in force applying to or affecting the Company, its memorandum of association and/or these Articles.
“Subsidiary and Holding Company”	the meanings attributed to them in the rules of the Designated Stock Exchange.
“US\$”	dollars, the legal currency of the United States of America.
“year”	a calendar year.

- (2) In these Articles, unless there be something within the subject or context inconsistent with such construction:
- (a) words importing the singular include the plural and vice versa;
 - (b) words importing a gender include both gender and the neuter;
 - (c) words importing persons include companies, associations and bodies of persons whether corporate or not;
 - (d) the words:
 - (i) “may” shall be construed as permissive;
 - (ii) “shall” or “will” shall be construed as imperative;
 - (e) expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations;
 - (f) references to any law, ordinance, statute or statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force and any reference to the rules of the Designated Stock Exchange shall mean such rules as may be amended from time to time;

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- (g) save as aforesaid words and expressions defined in the Statutes shall bear the same meanings in these Articles if not inconsistent with the subject in the context;
- (h) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.

SHARE CAPITAL

3. (1) At the date of adoption of these Articles, the authorised share capital of the Company is HK\$2,500,000,000 divided into 10,000,000,000 Ordinary Shares and US\$10,000 divided into 1,000,000 Preference Shares.

(2) The Ordinary Shares shall confer on the holders thereof the following rights:

(a) As regards income

Each Ordinary Share shall confer on the holder thereof the right to receive such dividends as may be resolved to be paid in accordance with the provisions of Articles 137–146 (inclusive) after the payment of the preferential dividend on any other class of shares.

(b) As regards capital

On a liquidation, winding-up or dissolution of the Company, the holder of each Ordinary Share shall be entitled, subject to the rights of any other class of shares having priority in accordance therewith, to repayment of the nominal amount of the capital paid up thereon and thereafter to any surplus assets then remaining which shall be distributed *pari passu* among the holders of the Ordinary Shares.

(c) As regards voting

The holder of each Ordinary Share shall be entitled to receive notice of general meetings of the Company and to attend and vote thereat in accordance with the provisions of these Articles.

(d) As regards other rights

The holder of each Ordinary Share shall generally, be entitled to enjoy all of the rights attaching to shares.

(3) The Preference Shares shall confer on the holders thereof the following rights:

(a) Definitions

For the purpose of this Article 3(3), unless the context otherwise requires:

“Business Day” means a day (excluding Saturdays and Sundays) on which banks are open for normal banking business in Hong Kong and New York;

“Controlling Shareholder” shall have the meaning attributed to it in the rules of the Designated Stock Exchange;

“Dissolution Event” means any liquidation, winding-up or dissolution of the Company;

“Distributable Profits” means, in relation to a Dividend Payment Date, accumulated and realized profits of the Company;

“Dividend Payment Date” means with respect to each Preference Share, half yearly on each 30 June and 31 December following the Issue Date of the relevant Preference Share;

“Final Redemption Date” means with respect to each Preference Share, the date that is ten years after the Issue Date of the relevant Preference Share;

“Fully-Paid Preference Share” means any Preference Share of which the Issue Price has been fully paid;

“Issue Date” means the day upon which each Preference Share is first issued and allotted by the Company;

“Issue Price” means US\$1,000.00 per Preference Share comprising a par value of US\$0.01 and a share premium of US\$999.99;

“six-month LIBOR” means:-

- (1) the offered rate (rounded, if necessary to the nearest one hundred-thousandth of a percentage point) for United States Dollars deposits for a six month period quoted on the Telerate Screen Page 3750 (or any equivalent successor of such page) at or about 11:00 a.m. (London time) two Business Days prior to the relevant Dividend Payment Date; or
- (2) if at or about 11:00 a.m. (London time) two Business Days before the first day of the relevant period no such rate appears on the Telerate Screen Page 3750, such page is not on display or the Bridge’s Telerate Service is not operating, the rate that is the offered rate (rounded, if necessary to the nearest one hundred-thousandth of a percentage point) for United States Dollars deposits for a six month period quoted (i) on the Telerate Screen Page 3750 (or any equivalent successor of such page) or in the event the Telerate service ceases to be in business or is no longer in existence, (ii) on any equivalent screen provided by a prominent financial service provider as selected by the Directors (at or about 11:00 a.m. (London time) on the immediately preceding Business Day that is not less than two Business Days before the relevant Dividend Payment Date on which such offered rate is quoted.

“Margin” means with respect to each Preference Share, such margin to be determined by the Directors on the Issue Date of the relevant Preference Share;

“Preference Dividend” means a dividend calculated at the Relevant Rate and payable on a Preference Share on a Dividend Payment Date (including the date on which the Preference Share is redeemed) and such other dates when all moneys owing in respect of the relevant Preference Share has been paid in full;

“Preference Shares” shall have the meaning ascribed to it in Article 2 of these Articles;

“Preference Shareholder” means the registered holder of the Preference Shares;

“Redemption Amount” means the Issue Price plus any unpaid and accumulated Preference Dividend;

“Redemption Notice” means a notice served on a Preference Shareholder by the Company notifying such Preference Shareholder of the Company’s intention to redeem any or all of the Fully–Paid Preference Shares held by such Preference Shareholder and such notice shall specify the number of Fully–Paid Preference Shares to be redeemed and the intended effective date of the redemption which shall be within 7 days from the date of service of the Redemption Notice;

“Relevant Rate” means the rate that is the sum of the Margin and six–month LIBOR;

“Specified Events” means any corporate actions, legal proceedings or other procedures or steps being taken in relation to:

- (1) the suspension of payments, a moratorium of any indebtedness, administration, provisional supervision or supervision of the Company;
- (2) a composition, assignment or arrangement with any creditor of the Company;
- (3) the appointment of a receiver, administrator, administrative receiver, provisional supervisor, supervisor, judicial manager or other similar officer in respect of the Company or any of its assets; or
- (4) enforcement of any security over any assets of the Company.

(b) As regards income

The Preference Shareholders shall be entitled to be paid out of the Distributable Profits a cumulative Preference Dividend upon and subject to the following terms:

- (i) Notwithstanding any provisions contained in these Articles, the Preference Shares shall confer on the Preference Shareholders the right, in priority to any dividend or distribution in favour of holders of any other classes of shares in the Company, to a fixed cumulative Preference Dividend at the Relevant Rate calculated on the Issue Price, or if the Issue Price has not been paid in full, the paid portion of the Issue Price, which shall be payable in arrears on each relevant Dividend Payment Date. The Preference Dividend in respect of a Preference Share shall accrue and be calculated on the basis of a 365 day year and for the actual number of days elapsed during the period commencing on (and including) the relevant Issue Date or the last Dividend Payment Date (as applicable) and ending on (but excluding) the relevant Dividend Payment Date.
- (ii) The Preference Dividend shall be paid out of the Distributable Profits; however no Preference Dividend shall be paid unless the Directors have resolved that the Company has sufficient funds available for the payment of the Preference Dividend. If the Company does not have sufficient Distributable Profits to cover the full payment of any Preference Dividend on a Dividend Payment Date, the Company shall make partial payment of such Preference Dividend to all the Preference Shareholders on a pro rata basis subject to Article 3(3)(b)(iii) below.
- (iii) If and to the extent that the Preference Dividend or any part thereof is not paid on the Preference Shares on any Dividend Payment Date whether by reason of insufficient Distributable Profits and/or the Company being subject to contractual or other restrictions on payment of the Preference Dividend on any Dividend Payment Date or otherwise, it shall continue to accrue and accumulate from and including the relevant Dividend Payment Date up to the date of actual payment.
- (iv) All accrued and arrears of Preference Dividend shall be payable to the Preference Shareholders in preference to any other payment of dividend or other distribution on, or capitalization issue in respect of, any other class of shares in the capital of the Company.
- (v) The Preference Dividend shall be paid in United States dollars.

(c) As regards capital

Upon the occurrence of a Dissolution Event, the Preference Shareholders shall be entitled in priority to the holders of any other shares in the capital of the Company to be paid the following sums as set out below:

- (i) (in priority to any distribution or payment to be made in favour of holders of any other classes of shares in the Company) all outstanding Preference Dividend which shall have accrued or which may accrue up to the date of such payment; and
- (ii) the Issue Price save that in the case where the Issue Price has not been paid in full, an amount equivalent to the paid portion of the Issue Price.

(d) As regards voting

Each Preference Shareholder shall have the right to receive notices of, and attend, all general meetings of the Company but shall not be entitled to vote upon any resolution unless either (1) the Company has failed to redeem the Fully-Paid Preference Shares pursuant to the provisions set out in Article 3(3)(e) below regarding redemption by reason of the Law or otherwise or (2) the business of the meeting includes the consideration of a resolution for winding-up the Company or varying the rights or privileges attached to the Preference Shares in which case each Preference Shareholder will be entitled to vote on such a resolution. Where the Preference Shareholders are entitled to vote in accordance with this Article 3(3)(d), every Preference Shareholder present in person or by proxy or (in the case of a corporation) by representative at a general meeting shall have, on a show of hands, one vote and, on a poll, a vote for every Preference Share held. The provisions of these Articles relating to notices of, and proceedings at, general meetings and votes of Members shall (subject to and except to the extent inconsistent with this Article) apply mutatis mutandis to any separate class meeting and the votes of the Preference Shareholders save that notwithstanding any provision contained in these Articles, a Preference Shareholder holding only partly-paid Preference Shares shall be entitled to vote in accordance with this Article 3(3)(d).

(e) As regards redemption

- (i) The Company may at any time and on an unlimited number of occasions redeem the Fully-Paid Preference Shares by serving a Redemption Notice on a Preference Shareholder for the redemption of any or all of the Fully-Paid Preference Shares held by such Preference Shareholders in accordance with the terms set out in the Redemption Notice at the Redemption Amount. Any Redemption Notice served may be withdrawn by the Company prior to the redemption taking place.
- (ii) The Company shall redeem any Preference Share outstanding on the Final Redemption Date at the Redemption Amount.

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- (iii) Only Fully–Paid Preference Shares may be redeemed at the Redemption Amount and redemption must be out of the funds of the Company lawfully available therefor and no dividend or other distribution on any other shares in the capital of the Company or other payments which would reduce such funds or other acts which might reasonably be expected to reduce such funds shall be made unless the Company has sufficient funds lawfully available to cover the amount payable for the redemption.
 - (iv) The Preference Shareholders whose Preference Shares are to be redeemed shall deliver to the Company the certificate(s) for such Preference Shares and the Company shall cancel the same. If any certificate so delivered to the Company includes any Preference Shares not falling to be redeemed on the relevant Redemption Date, the Company shall without charge issue a certificate for the balance of any unredeemed Preference Shares to the holder or holders thereof.
 - (v) Redemption of the Preference Shares shall be effected in such manner as the Directors shall, subject to these Articles and as the Law or other applicable laws or regulations may allow, from time to time determine.
 - (vi) All of the Fully–Paid Preference Shares not previously redeemed shall be redeemed upon occurrence of the Specified Events.
- (f) As regards Transferability

Any transfer of the Preference Shares shall require the prior consent of the Directors save that, subject to the Law and applicable rules and regulations, the Preference Shares shall be freely transferable to subsidiaries of the Controlling Shareholder of the Company or of the Company and the Directors shall forthwith register such transfer upon receiving an instrument of transfer duly signed in accordance with these Articles.

(4) Subject to the Law, the Company's Memorandum and Articles of Association and, where applicable, the rules of any Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it thinks fit.

(5) Except as allowed by the Law and subject further to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority the Company shall not give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(6) No share shall be issued to bearer.

ALTERATION OF CAPITAL

4. The Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:

- (a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";
- (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum of association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;
- (e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.

5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company's benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

6. The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any manner permitted by law.

7. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and installments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

SHARE RIGHTS

8. (1) Subject to the provisions of the Law and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as provided in these Articles or as the Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Board may determine.

(2) Subject to the provisions of the Law, the rules of any Designated Stock Exchange and the Memorandum and Articles of Association of the Company, and to any special rights conferred on the holders of any shares or attaching to any class of shares, shares may be issued on the terms that they may be, or at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as the Board may deem fit.

9. Subject to the Law and to these Articles, any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder if so authorised by its memorandum of association, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Members alike.

VARIATION OF RIGHTS

10. Subject to the Law and without prejudice to Article 8, all or any of the special rights for the time being attached to the shares or any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to general meetings of the Company shall, mutatis mutandis, apply, but so that:

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- (a) the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a Member being a corporation, its duly authorized representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person (or in the case of a Member being a corporation, its duly authorized representative) or by proxy (whatever the number of shares held by them) shall be a quorum;
- (b) every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him; and
- (c) any holder of shares of the class present in person or by proxy or authorised representative may demand a poll.

11. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

SHARES

12. (1) Subject to the Law, these Articles, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount. Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to Members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(2) Notwithstanding any provisions contained in these Articles but subject at all times to the applicable rules of the Designated Stock Exchange, the Board shall have the power to issue from time to time any or all of the Preference Shares, in one or more series, each Preference Share shall have the rights and restrictions set out in Article 3 and the Board shall have the power to determine such terms, conditions and special rights as may be required by Article 3 to be determined with respect to each Preference Share without any further vote or action by the Members.

(3) The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

13. The Company may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by the Law. Subject to the Law, the commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one and partly in the other.

14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any fractional part of a share or (except only as otherwise provided by these Articles or by law) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

15. Subject to the Law and these Articles, the Board may at any time after the allotment of shares but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Board considers fit to impose.

SHARE CERTIFICATES

16. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.

17. (1) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(2) Where a share stands in the names of two or more persons, the person first named in the Register shall as regards service of notices and, subject to the provisions of these Articles, all or any other matters connected with the Company, except the transfer of the shares, be deemed the sole holder thereof.

18. Every person whose name is entered, upon an allotment of shares, as a Member in the Register shall be entitled, without payment, to receive one certificate for all such shares of any one class or several certificates each for one or more of such shares of such class upon payment for every certificate after the first of such reasonable out-of-pocket expenses as the Board from time to time determines.

19. Share certificates shall be issued within the relevant time limit as prescribed by the Law or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.

20. (1) Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him at such fee as is provided in paragraph (2) of this Article. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him at the aforesaid fee payable by the transferor to the Company in respect thereof.

(2) The fee referred to in paragraph (1) above shall be an amount not exceeding the relevant maximum amount as the Designated Stock Exchange may from time to time determine provided that the Board may at any time determine a lower amount for such fee.

21. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued to the relevant Member upon request and on payment of such fee as the Designated Stock Exchange may determine to be the maximum fee payable or such lesser sum as the Board may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of damage or defacement, on delivery of the old certificate to the Company provided always that where share warrants have been issued, no new share warrant shall be issued to replace one that has been lost unless the Directors are satisfied beyond reasonable doubt that the original has been destroyed.

LIEN

22. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company shall also have a first and paramount lien on every share (not being a fully paid share) registered in the name of a Member (whether or not jointly with other Members) for all amounts of money presently payable by such Member or his estate to the Company whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member, and whether the period for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Member or his estate and any other person, whether a Member of the Company or not. The Company's lien on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Board may at any time, generally or in any particular case, waive any lien that has arisen or declare any share exempt in whole or in part, from the provisions of this Article.

23. Subject to these Articles, the Company may sell in such manner as the Board determines any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged nor until the expiration of fourteen clear days after a notice in writing, stating and demanding payment of the sum presently payable, or specifying the liability or engagement and demanding fulfilment or discharge thereof and giving notice of the intention to sell in default, has been served on the registered holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.

24. The net proceeds of the sale shall be received by the Company and applied in or towards payment or discharge of the debt or liability in respect of which the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares so transferred and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

CALLS ON SHARES

25. Subject to these Articles and to the terms of allotment, the Board may from time to time make calls upon the Members in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium), and each Member shall (subject to being given at least fourteen (14) clear days' Notice specifying the time and place of payment) pay to the Company as required by such notice the amount called on his shares. A call may be extended, postponed or revoked in whole or in part as the Board determines but no member shall be entitled to any such extension, postponement or revocation except as a matter of grace and favour.

26. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be made payable either in one lump sum or by instalments.

27. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect thereof or other moneys due in respect thereof.

28. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion waive payment of such interest wholly or in part.

29. Subject to these Articles, no Member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another Member) at any general meeting either personally or by proxy, or be reckoned in a quorum, or exercise any other privilege as a Member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid.

30. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the Member sued, in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

31. Any amount payable in respect of a share upon allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call duly made and payable on the date fixed for payment and if it is not paid the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call duly made and notified.

32. On the issue of shares the Board may differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

33. The Board may, if it thinks fit, receive from any Member willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide. The Board may at any time repay the amount so advanced upon giving to such Member not less than one month's Notice of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. Unless otherwise provided by these Articles, such payment in advance shall not entitle the holder of such share or shares to participate in respect thereof in a dividend subsequently declared or to exercise any other rights or privileges as a Member in respect of the share or the due portion of the shares upon which payment has been advanced by such Member before it is called up.

FORFEITURE OF SHARES

34. (1) If a call remains unpaid after it has become due and payable the Board may give to the person from whom it is due not less than fourteen (14) clear days' Notice:

- (a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and
- (b) stating that if the Notice is not complied with, the shares on which the call was made will be liable to be forfeited.

(2) If the requirements of any such Notice are not complied with, any share in respect of which such Notice has been given may at any time thereafter, before payment of all calls and interest due in respect thereof has been made, be forfeited by a resolution of the Board to that effect, and such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share but not actually paid before the forfeiture.

35. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.

36. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references in these Articles to forfeiture will include surrender.

37. Any share so forfeited shall be deemed the property of the Company and may be sold, re-allotted or otherwise disposed of to such person, upon such terms and in such manner as the Board determines, and at any time before a sale, re-allotment or disposition the forfeiture may be annulled by the Board on such terms as the Board determines.

38. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but nevertheless shall remain liable to pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares, with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board determines. The Board may enforce payment thereof if it thinks fit, and without any deduction or allowance for the value of the forfeited shares, at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

39. A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the Member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

40. Notwithstanding any such forfeiture as aforesaid the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.

41. The forfeiture of a share shall not prejudice the right of the Company to any call already made or installment payable thereon.

42. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

REGISTER OF MEMBERS

43. (1) The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:

- (a) the name and address of each Member, the number and class of shares held by him and the amount paid or agreed to be considered as paid on such shares;
- (b) the date on which each person was entered in the Register; and
- (c) the date on which any person ceased to be a Member.

(2) The Company may keep an overseas or local or other branch register of Members resident in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such register and maintaining a Registration Office in connection therewith.

44. The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours on every business day by Members without charge or by any other person, upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

RECORD DATES

45. Notwithstanding any other provision of these Articles the Company or the Directors may fix any date as the record date for:

- (a) determining the Members entitled to receive any dividend, distribution, allotment or issue and such record date may be on, or at any time not more than thirty (30) days before or after, any date on which such dividend, distribution, allotment or issue is declared, paid or made;
- (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

TRANSFER OF SHARES

46. Subject to these Articles, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

47. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. Without prejudice to the last preceding Article, the Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

48. (1) The Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share (not being a fully paid up share) on which the Company has a lien.

(2) No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.

(3) The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.

(4) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place at which the Register is kept in accordance with the Law.

49. Without limiting the generality of the last preceding Article, the Board may decline to recognise any instrument of transfer unless:-

- (a) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is lodged at the Office or such other place at which the Register is kept in accordance with the Law or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do);
- (d) if applicable, the instrument of transfer is duly and properly stamped; and
- (e) the shares concerned are free of any lien in favour of the Company.

50. If the Board refuses to register a transfer of any share, it shall, within two (2) months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal.

51. The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

TRANSMISSION OF SHARES

52. If a Member dies, the survivor or survivors where the deceased was a joint holder, and his legal personal representatives where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the shares; but nothing in this Article will release the estate of a deceased Member (whether sole or joint) from any liability in respect of any share which had been solely or jointly held by him.

53. Any person becoming entitled to a share in consequence of the death or bankruptcy or winding-up of a Member may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing either at the Registration Office or Office, as the case may be, to that effect. If he elects to have another person registered he shall execute a transfer of the share in favour of that person. The provisions of these Articles relating to the transfer and registration of transfers of shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by such Member.

54. A person becoming entitled to a share by reason of the death or bankruptcy or winding-up of a Member shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if it thinks fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Article 75(2) being met, such a person may vote at meetings.

UNTRACEABLE MEMBERS

55. (1) Without prejudice to the rights of the Company under paragraph (2) of this Article, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions.

However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

(2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:

- (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;
- (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
- (c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the "relevant period" means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

(3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

GENERAL MEETINGS

56. An annual general meeting of the Company shall be held in each year other than the year of the Company's adoption of these Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or not more than eighteen (18) months after the date of adoption of these Articles, unless a longer period would not infringe the rules of the Designated Stock Exchange, if any) at such time and place as may be determined by the Board.

57. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.

58. The Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

NOTICE OF GENERAL MEETINGS

59. (1) An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' Notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

(2) The notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

60. The accidental omission to give Notice of a meeting or (in cases where instruments of proxy are sent out with the Notice) to send such instrument of proxy to, or the non-receipt of such Notice or such instrument of proxy by, any person entitled to receive such Notice shall not invalidate any resolution passed or the proceedings at that meeting.

PROCEEDINGS AT GENERAL MEETINGS

61. (1) All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of:

- (a) the declaration and sanctioning of dividends;
- (b) consideration and adoption of the accounts and balance sheet and the reports of the Directors and Auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors whether by rotation or otherwise in the place of those retiring;
- (d) appointment of Auditors (where special notice of the intention for such appointment is not required by the Law) and other officers;
- (e) the fixing of the remuneration of the Auditors, and the voting of remuneration or extra remuneration to the Directors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

(2) No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. Two (2) Members entitled to vote and present in person or by proxy or (in the case of a Member being a corporation) by its duly authorised representative shall form a quorum for all purposes.

62. If within thirty (30) minutes (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) after the time appointed for the meeting a quorum is not present, the meeting, if convened on the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the Board may determine. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the meeting shall be dissolved.

63. The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.

64. The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place as the meeting shall determine, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.

65. If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

VOTING

66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a duly authorised representative), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or

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- (b) by at least five Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
 - (c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
 - (d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

67. Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

68. If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. There shall be no requirement for the chairman to disclose the voting figures on a poll.

69. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.

70. The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

71. On a poll votes may be given either personally or by proxy.

72. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

73. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.

74. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Article be deemed joint holders thereof.

75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.

(2) Any person entitled under Article 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.

76. (1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

(3) (a) In this Article 76(3):

“Affected Entity” means the subsidiary or affiliate of the Company referred to in the meaning of “Suspension Event”;

“Affected Shares” means the number of shares specified in a Direction Notice (as defined below) as being Affected Shares;

“affiliate” means, in relation to any person or entity (the “First Entity”), any person or entity which is not a subsidiary of the First Entity and in which the First Entity holds, directly or indirectly, at least 5% of the issued share capital;

“Representative” means a Director appointed by or at the direction of the holder of the Affected Shares to the Board;

“Suspension Event” means where any person directly or indirectly having or acquiring such number of shares, an interest in such number of shares, in the Company as, in the opinion of the Directors, requires a review or approval under, or which would or may result in any subsidiary or affiliate of the Company being in default or in breach of any applicable law, regulation, or licence, permit, consent or privilege held or enjoyed by any such subsidiary or affiliate or of any requirement of any governmental or regulatory authority.

(b) If it shall come to the notice of the Directors that a Suspension Event has occurred, the Directors may in their absolute discretion at any time thereafter serve a notice (a “Direction Notice”) upon such Member holding the Affected Shares as follows:

- (i) stating that a Suspension Event has occurred and specifying the shares held by the Member that are Affected Shares and the name of each Affected Entity;
- (ii) suspending the right of such Member to exercise the voting rights attached to the Affected Shares held by the Member in respect of any resolution at any general meeting of the Company that concerns the business, operations, management or activities or any other matters in relation to any of the Affected Entities including the appointment of a director or the managing director of any of the Affected Entities; and/or
- (iii) restricting such Representative(s) from voting on any resolution or matter that concerns the activities of any of the Affected Entities or the appointment of a director or the managing director of any of the Affected Entities.

(c) The Direction Notice may additionally direct the Member holding the Affected Shares to furnish the Company with such information or such documents as the Company may require in order to enable the Company or any of the Affected Entities to obtain the necessary approval that may be required in order to enable the Member to continue to hold the Affected Shares without a Suspension Event subsisting.

(d) Any vote cast by the Member holding the Affected Shares in contravention of any Direction Notice issued to such Member shall not be counted.

(e) Apart from the voting rights being suspended in the manner referred to in the Direction Notice which shall be to the minimum extent (in terms of period of suspension, voting rights suspended and number of shares affected) that is, in the opinion of the Directors, required in order to prevent such breach or default or in connection with such review or approval, all other rights attached to the Affected Shares shall not be affected and shall remain exercisable by the Member holding such Affected Shares.

(f) The Direction Notice is effective in respect of the Affected Shares only and shall not apply to any other shares in the Company that may be held by the same Member holding the Affected Shares.

(g) Any Direction Notice shall have effect as soon as it has been issued and shall remain effective in accordance with its terms for so long as the default in respect of which it was issued continues. Any Direction Notice shall cease to have effect in the event the Suspension Event ceases to occur or subsist. The Directors may at any time give notice canceling a Direction Notice, in whole or in part, or suspending, in whole or in part, the imposition of any restrictions contained in the Direction Notice for a given period.

(h) Any resolution, decision, determination or exercise of any discretion or power by the Directors pursuant to this Article 76(3) shall be final and conclusive and they shall not be obliged to give any reasons therefore. Neither the Company nor the Directors shall in any event be liable to any person as a result of the Directors issuing the Direction Notice pursuant to this Article 76(3) if the Directors have acted in good faith. Without prejudice to the foregoing, the Directors shall, so long as they have acted in good faith, be under no liability to the Company or any other person for failing to treat any share in the Company as an Affected Share or any person as a Member holding the Affected Shares in accordance with the provisions of this Article 76(3) and neither shall any Director be liable to the Company or to any person if, having acted in good faith, they determine erroneously that any share is an Affected Share or any person is a Member holding the Affected Shares or, on the basis of such determination or resolution of the Directors, they perform or exercise (or purport to perform or exercise) their duties, powers, rights or discretions under Article 76(3) in relation to such share.

77. If:

- (a) any objection shall be raised to the qualification of any voter; or
- (b) any votes have been counted which ought not to have been counted or which might have been rejected; or
- (c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

PROXIES

78. Any Member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Member. In addition, a proxy or proxies representing either a Member who is an individual or a Member which is a corporation shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise.

79. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.

83. Anything which under these Articles a Member may do by proxy he may likewise do by his duly appointed attorney and the provisions of these Articles relating to proxies and instruments appointing proxies shall apply mutatis mutandis in relation to any such attorney and the instrument under which such attorney is appointed.

CORPORATIONS ACTING BY REPRESENTATIVES

84. (1) Any corporation which is a Member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any meeting of any class of Members. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member and such corporation shall for the purposes of these Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

(2) If a clearing house (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(3) Any reference in these Articles to a duly authorised representative of a Member being a corporation shall mean a representative authorised under the provisions of this Article.

WRITTEN RESOLUTIONS OF MEMBERS

85. A resolution in writing signed (in such manner as to indicate, expressly or impliedly, unconditional approval) by or on behalf of all persons for the time being entitled to receive notice of and to attend and vote at general meetings of the Company shall, for the purposes of these Articles, be treated as a resolution duly passed at a general meeting of the Company and, where relevant, as a special resolution so passed. Any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last Member to sign, and where the resolution states a date as being the date of his signature thereof by any Member the statement shall be prima facie evidence that it was signed by him on that date. Such a resolution may consist of several documents in the like form, each signed by one or more relevant Members.

BOARD OF DIRECTORS

86. (1) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by the Members in general meeting. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.

(2) Subject to the Articles and the Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

(3) The Directors shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board but so that the maximum number of Directors so appointed shall not exceed the number determined from time to time by the Members in general meeting. Any Director so appointed by the Directors, in the case of filling a casual vacancy, shall hold office only until the next following general meeting of the Company, or in the case of an addition to their number, until the next following annual general meeting of the Company, and shall then be eligible for re-election at the meeting.

(4) Neither a Director nor an alternate Director shall be required to hold any shares of the Company by way of qualification and a Director or alternate Director (as the case may be) who is not a Member shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and of all classes of shares of the Company.

(5) The Members may, at any general meeting convened and held in accordance with these Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).

(6) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (5) above may be filled by the election or appointment by ordinary resolution the Members at the meeting at which such Director is removed.

(7) The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two (2).

RETIREMENT OF DIRECTORS

87. (1) Notwithstanding any other provisions in the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) or such other manner of rotation as may be required by the rules of the Designated Stock Exchange or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time shall retire from office by rotation.

(2) A retiring Director shall be eligible for re-election. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to Article 86(2) or Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company. Unless otherwise determined by the Directors and notified by the Company to the Members, the period for lodgment of the said notices shall be a 7-day period commencing on the day after the day of dispatch of the notice of the meeting for such election of Director(s) and ending on the date falling 7 days after the dispatch of the said notice of the meeting. If the Directors should so determine and notify the Members of a different period for lodgment of the said notices, such period shall in any event be a period of not less than 7 days, commencing no earlier than the day after the dispatch of the said notice of the meeting and ending no later than 7 days prior to the date of such meeting.

DISQUALIFICATION OF DIRECTORS

89. The office of a Director shall be vacated if the Director:

- (1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;
- (2) becomes of unsound mind or dies;
- (3) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months, and his alternate Director, if any, shall not during such period have attended in his stead and the Board resolves that his office be vacated; or
- (4) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (5) is prohibited by law from being a Director; or
- (6) ceases to be a Director by virtue of any provision of the Statutes or is removed from office pursuant to these Articles.

EXECUTIVE DIRECTORS

90. The Board may from time to time appoint any one or more of its body to be a managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Article shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.

91. Notwithstanding Articles 96, 97, 98 and 99, an executive director appointed to an office under Article 90 hereof shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine, and either in addition to or in lieu of his remuneration as a Director.

ALTERNATE DIRECTORS

92. Any Director may at any time by Notice delivered to the Office or head office or at a meeting of the Directors appoint any person (including another Director) to be his alternate Director. Any person so appointed shall have all the rights and powers of the Director or Directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present. An alternate Director may be removed at any time by the body which appointed him and, subject thereto, the office of alternate Director shall continue until the happening of any event which, if he were a Director, would cause him to vacate such office or if his appointor ceases for any reason to be a Director. Any appointment or removal of an alternate Director shall be effected by Notice signed by the appointor and delivered to the Office or head office or tendered at a meeting of the Board. An alternate Director may also be a Director in his own right and may act as alternate to more than one Director. An alternate Director shall, if his appointor so requests, be entitled to receive notices of meetings of the Board or of committees of the Board to the same extent as, but in lieu of, the Director appointing him and shall be entitled to such extent to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of these Articles shall apply as if he were a Director save that as an alternate for more than one Director his voting rights shall be cumulative.

93. An alternate Director shall only be a Director for the purposes of the Law and shall only be subject to the provisions of the Law insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent *mutatis mutandis* as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by Notice to the Company from time to time direct.

94. Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate (in addition to his own vote if he is also a Director). If his appointor is for the time being absent from Hong Kong or otherwise not available or unable to act, the signature of an alternate Director to any resolution in writing of the Board or a committee of the Board of which his appointor is a member shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor.

95. An alternate Director shall *ipso facto* cease to be an alternate Director if his appointor ceases for any reason to be a Director, however, such alternate Director or any other person may be re-appointed by the Directors to serve as an alternate Director PROVIDED always that, if at any meeting any Director retires but is re-elected at the same meeting, any appointment of such alternate Director pursuant to these Articles which was in force immediately before his retirement shall remain in force as though he had not retired.

DIRECTORS' FEES AND EXPENSES

96. The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day.

97. Each Director shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

98. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.

99. The Board shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

DIRECTORS' INTERESTS

100. A Director may:

- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Article;

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- (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director;
- (c) continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Articles the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

101. Subject to the Law and to these Articles, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director or his associate(s) is/are in any way interested be liable to be avoided, nor shall any Director or his associate(s) so contracting or being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Article 102 herein.

102. A Director who or whose associate(s) to his knowledge is/are in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his/their interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his/their interest then exists, or in any other case at the first meeting of the Board after he knows that he/they is/are or has/have become so interested. For the purposes of this Article, a general Notice to the Board by a Director to the effect that:

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- (a) he or his associate(s) is/are a member or officer of a specified company or firm and is/are to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or
 - (b) he or his associate(s) is/are to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is/are connected with him or his associate(s);

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, and if he shall do so his vote shall not be counted and he shall not be counted in the quorum of such resolution of the Board but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving by the Company or any of its subsidiaries to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving by the Company or any of its subsidiaries of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company or any of its subsidiaries;

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- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (vi) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and restricted right to receive dividend and return of capital.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) as to the entitlement of any Director (other than such chairman) to vote or be counted in a quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associates concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman and/or his associates as known to such chairman has not been fairly disclosed to the Board.

(5) The Company may by ordinary resolution ratify any transaction not duly authorised by reason of a contravention of this Article provided that no Director who or whose associate(s) is/are materially interested in such transaction, together with any of his associate(s), shall vote upon such ordinary resolution in respect of any shares in the Company in which they are interested or be counted in the quorum.

GENERAL POWERS OF THE DIRECTORS

104. (1) The business of the Company shall be managed and conducted by the Board, which may pay all expenses incurred in forming and registering the Company and may exercise all powers of the Company (whether relating to the management of the business of the Company or otherwise) which are not by the Statutes or by these Articles required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Statutes and of these Articles and to such regulations being not inconsistent with such provisions, as may be prescribed by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulations had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Board by any other Article.

(2) Any person contracting or dealing with the Company in the ordinary course of business shall be entitled to rely on any written or oral contract or agreement or deed, document or instrument entered into or executed as the case may be by any two of the Directors acting jointly on behalf of the Company and the same shall be deemed to be validly entered into or executed by the Company as the case may be and shall, subject to any rule of law, be binding on the Company.

- (3) Without prejudice to the general powers conferred by these Articles it is hereby expressly declared that the Board shall have the following powers:
- (a) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.
 - (b) To give to any Directors, officers or servants of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration.
 - (c) To resolve that the Company be deregistered in the Cayman Islands and continued in a named jurisdiction outside the Cayman Islands subject to the provisions of the Law.

(4) Except as would, if the Company were a company incorporated in Hong Kong, be permitted by Section 157H of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force at the date of adoption of these Articles, and except as permitted under the Law, the Company shall not directly or indirectly:

- (i) make a loan to a Director or a director of any holding company of the Company or to any of their respective associates (as defined by the rules, where applicable, of the Designated Stock Exchange);
- (ii) enter into any guarantee or provide any security in connection with a loan made by any person to a Director or such a director; or
- (iii) if any one or more of the Directors hold (jointly or severally or indirectly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

Article 104(4) shall only have effect for so long as the shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

105. The Board may establish any regional or local boards or agencies for managing any of the affairs of the Company in any place, and may appoint any persons to be members of such local boards, or any managers or agents, and may fix their remuneration (either by way of salary or by commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes) and pay the working expenses of any staff employed by them upon the business of the Company. The Board may delegate to any regional or local board, manager or agent any of the powers, authorities and discretions vested in or exercisable by the Board (other than its powers to make calls and forfeit shares), with power to sub-delegate, and may authorise the members of any of them to fill any vacancies therein and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit, and the Board may remove any person appointed as aforesaid, and may revoke or vary such delegation, but no person dealing in good faith and without notice of any such revocation or variation shall be affected thereby.

106. The Board may by power of attorney appoint under the Seal any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or instrument under their personal seal with the same effect as the affixation of the Company's Seal.

107. The Board may entrust to and confer upon a managing director, joint managing director, deputy managing director, an executive director or any Director any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its own powers, and may from time to time revoke or vary all or any of such powers but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.

108. All cheques, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.

109. (1) The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's moneys to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its subsidiary companies) and ex-employees of the Company and their dependants or any class or classes of such person.

(2) The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as mentioned in the last preceding paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement.

BORROWING POWERS

110. The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

111. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

112. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.

113. (1) Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the Members or otherwise, to obtain priority over such prior charge.

(2) The Board shall cause a proper register to be kept, in accordance with the provisions of the Law, of all charges specifically affecting the property of the Company and of any series of debentures issued by the Company and shall duly comply with the requirements of the Law in regard to the registration of charges and debentures therein specified and otherwise.

PROCEEDINGS OF THE DIRECTORS

114. The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of any equality of votes the chairman of the meeting shall have an additional or casting vote.

115. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.

116. (1) The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two
(2). An alternate Director shall be counted in a quorum in the case of the absence of a Director for whom he is the alternate provided that he shall not be counted more than once for the purpose of determining whether or not a quorum is present.

(2) Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

(3) Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of such Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.

117. The continuing Directors or a sole continuing Director may act notwithstanding any vacancy in the Board but, if and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Articles, the continuing Directors or Director, notwithstanding that the number of Directors is below the number fixed by or in accordance with these Articles as the quorum or that there is only one continuing Director, may act for the purpose of filling vacancies in the Board or of summoning general meetings of the Company but not for any other purpose.

118. The Board may elect a chairman and one or more deputy chairman of its meetings and determine the period for which they are respectively to hold such office. If no chairman or deputy chairman is elected, or if at any meeting neither the chairman nor any deputy chairman is present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

119. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.

120. (1) The Board may delegate any of its powers, authorities and discretions to committees, consisting of such Director or Directors and other persons as it thinks fit, and they may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

(2) All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any such committee, and charge such remuneration to the current expenses of the Company.

121. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Article.

122. A resolution in writing signed by each of the Directors for the time being in the territory at which the principal place of business of the Company is situated except such as are temporarily unable to act through ill-health or disability, and all the alternate Directors, if appropriate, whose appointors are temporarily unable to act as aforesaid shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Articles) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors or alternate Directors and for this purpose a facsimile signature of a Director or an alternate Director shall be treated as valid.

123. All acts bona fide done by the Board or by any committee or by any person acting as a Director or members of a committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director or member of such committee.

MANAGERS

124. The Board may from time to time appoint a general manager, a manager or managers of the Company and may fix his or their remuneration either by way of salary or commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes and pay the working expenses of any of the staff of the general manager, manager or managers who may be employed by him or them upon the business of the Company.

125. The appointment of such general manager, manager or managers may be for such period as the Board may decide, and the Board may confer upon him or them all or any of the powers of the Board as they may think fit.

126. The Board may enter into such agreement or agreements with any such general manager, manager or managers upon such terms and conditions in all respects as the Board may in their absolute discretion think fit, including a power for such general manager, manager or managers to appoint an assistant manager or managers or other employees whatsoever under them for the purpose of carrying on the business of the Company.

OFFICERS

127. (1) The officers of the Company shall consist of a chairman, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.

(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a chairman and if more than one (1) Director is proposed for this office, the election to such office shall take place in such manner as the Directors may determine.

(3) The officers shall receive such remuneration as the Directors may from time to time determine.

128. (1) The Secretary and additional officers, if any, shall be appointed by the Board and shall hold office on such terms and for such period as the Board may determine. If thought fit, two (2) or more persons may be appointed as joint Secretaries. The Board may also appoint from time to time on such terms as it thinks fit one or more assistant or deputy Secretaries.

(2) The Secretary shall attend all meetings of the Members and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Law or these Articles or as may be prescribed by the Board.

129. The officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time.

130. A provision of the Law or of these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary.

REGISTER OF DIRECTORS AND OFFICERS

131. (1) The Company shall cause to be kept in one or more books at its Office a Register of Directors and Officers in which there shall be entered the full names and addresses of the Directors and Officers and such other particulars as required by the Law or as the Directors may determine. The Company shall send to the Registrar of Companies in the Cayman Islands a copy of such register, and shall from time to time notify to the said Registrar of any change that takes place in relation to such Directors and Officers as required by the Law.

MINUTES

132. (1) The Board shall cause minutes to be duly entered in books provided for the purpose:

- (a) of all elections and appointments of officers;
 - (b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;
 - (c) of all resolutions and proceedings of each general meeting of the Members, meetings of the Board and meetings of committees of the Board and where there are managers, of all proceedings of meetings of the managers.
- (2) Minutes shall be kept by the Secretary at the head office or such other place as may be determined by the Board.

SEAL

133. (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word "Securities" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.

(2) Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

AUTHENTICATION OF DOCUMENTS

134. Any Director or the Secretary or any person appointed by the Board for the purpose may authenticate any documents affecting the constitution of the Company and any resolution passed by the Company or the Board or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts, and if any books, records, documents or accounts are elsewhere than at the Office or the head office the local manager or other officer of the Company having the custody thereof shall be deemed to be a person so appointed by the Board. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee which is so certified shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

DESTRUCTION OF DOCUMENTS

135. (1) The Company shall be entitled to destroy the following documents at the following times:

- (a) any share certificate which has been cancelled at any time after the expiry of one (1) year from the date of such cancellation;

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- (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two (2) years from the date such mandate variation cancellation or notification was recorded by the Company;
 - (c) any instrument of transfer of shares which has been registered at any time after the expiry of seven (7) years from the date of registration;
 - (d) any allotment letters after the expiry of seven (7) years from the date of issue thereof; and
 - (e) copies of powers of attorney, grants of probate and letters of administration at any time after the expiry of seven (7) years after the account to which the relevant power of attorney, grant of probate or letters of administration related has been closed;

and it shall conclusively be presumed in favour of the Company that every entry in the Register purporting to be made on the basis of any such documents so destroyed was duly and properly made and every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that: (1) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim; (2) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (1) above are not fulfilled; and (3) references in this Article to the destruction of any document include references to its disposal in any manner.

(2) Notwithstanding any provision contained in these Articles, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Article and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Article shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.

DIVIDENDS AND OTHER PAYMENTS

136. Subject to the Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the Members but no dividend shall be declared in excess of the amount recommended by the Board.

137. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.

138. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share; and
- (b) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

139. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

140. The Board may deduct from any dividend or other moneys payable to a Member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

141. No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.

142. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the Register in respect of the shares at his address as appearing in the Register or addressed to such person and at such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

143. All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

144. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue certificates in respect of fractions of shares, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective and binding on the Members. The Board may resolve that no such assets shall be made available to Members with registered addresses in any particular territory or territories where, in the absence of a registration statement or other special formalities, such distribution of assets would or might, in the opinion of the Board, be unlawful or impracticable and in such event the only entitlement of the Members aforesaid shall be to receive cash payments as aforesaid. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

145. (1) Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on any class of the share capital of the Company, the Board may further resolve either:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Members entitled thereto will be entitled to elect to receive such dividend (or part thereof if the Board so determines) in cash in lieu of such allotment. In such case, the following provisions shall apply:
 - (i) the basis of any such allotment shall be determined by the Board;
 - (ii) the Board, after determining the basis of allotment, shall give not less than two (2) weeks' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;

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- (iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and
- (iv) the dividend (or that part of the dividend to be satisfied by the allotment of shares as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised (“the non-elected shares”) and in satisfaction thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the non-elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the non-elected shares on such basis; or
- (b) that the Members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:
- (i) the basis of any such allotment shall be determined by the Board;
- (ii) the Board, after determining the basis of allotment, shall give not less than two (2) weeks’ Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
- (iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and
- (iv) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable in cash on shares in respect whereof the share election has been duly exercised (“the elected shares”) and in lieu thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the elected shares on such basis.

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- (2) (a) The shares allotted pursuant to the provisions of paragraph (1) of this Article shall rank *pari passu* in all respects with shares of the same class (if any) then in issue save only as regards participation in the relevant dividend or in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend unless, contemporaneously with the announcement by the Board of their proposal to apply the provisions of sub-paragraph (a) or (b) of paragraph (2) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (1) of this Article shall rank for participation in such distribution, bonus or rights.
- (b) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (1) of this Article, with full power to the Board to make such provisions as it thinks fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the Members concerned). The Board may authorise any person to enter into on behalf of all Members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.
- (3) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (1) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.
- (4) The Board may on any occasion determine that rights of election and the allotment of shares under paragraph (1) of this Article shall not be made available or made to any shareholders with registered addresses in any territory where, in the absence of a registration statement or other special formalities, the circulation of an offer of such rights of election or the allotment of shares would or might, in the opinion of the Board, be unlawful or impracticable, and in such event the provisions aforesaid shall be read and construed subject to such determination. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

(5) Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Board, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to bonuses, capitalisation issues, distributions of realised capital profits or offers or grants made by the Company to the Members.

RESERVES

146. (1) The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. Unless otherwise provided by the provisions of these Articles, the Board may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.

(2) Before recommending any dividend, the Board may set aside out of the profits of the Company such sums as it determines as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

CAPITALISATION

147. The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and capital redemption reserve and the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the Members or any class of Members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such Members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid up among such Members, or partly in one way and partly in the other, and the Board shall give effect to such resolution provided that, for the purposes of this Article, a share premium account and any capital redemption reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such Members credited as fully paid.

148. The Board may settle, as it considers appropriate, any difficulty arising in regard to any distribution under the last preceding Article and in particular may issue certificates in respect of fractions of shares or authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any Members in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Members.

SUBSCRIPTION RIGHTS RESERVE

149. The following provisions shall have effect to the extent that they are not prohibited by and are in compliance with the Law:

(1) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of the warrants, would reduce the subscription price to below the par value of a share, then the following provisions shall apply:

- (a) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Article) maintain in accordance with the provisions of this Article a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (c) below on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;
- (b) the Subscription Rights Reserve shall not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law;

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- (c) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrant holder, credited as fully paid, such additional nominal amount of shares as is equal to the difference between:
- (i) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights); and
 - (ii) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted credited as fully paid to the exercising warrant holders; and
- (d) if, upon the exercise of the subscription rights represented by any warrant, the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which the exercising warrant holder is entitled, the Board shall apply any profits or reserves then or thereafter becoming available (including, to the extent permitted by law, share premium account) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the fully paid shares of the Company then in issue. Pending such payment and allotment, the exercising warrant holder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrant holder upon the issue of such certificate.

(2) Shares allotted pursuant to the provisions of this Article shall rank pari passu in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned. Notwithstanding anything contained in paragraph (1) of this Article, no fraction of any share shall be allotted on exercise of the subscription rights.

(3) The provision of this Article as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating the provisions for the benefit of any warrant holder or class of warrant holders under this Article without the sanction of a special resolution of such warrant holders or class of warrant holders.

(4) A certificate or report by the auditors for the time being of the Company as to whether or not the Subscription Rights Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to exercising warrant holders credited as fully paid, and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrant holders and shareholders.

ACCOUNTING RECORDS

150. The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

151. The accounting records shall be kept at the Office or, at such other place or places as the Board decides and shall always be open to inspection by the Directors. No Member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

152. Subject to Article 153, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

153. Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

154. The requirement to send to a person referred to in Article 152 the documents referred to in that article or a summary financial report in accordance with Article 153 shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 153, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

AUDIT

155. (1) At the annual general meeting or at a subsequent extraordinary general meeting in each year, the Members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the Members appoint another auditor. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.

(2) A person, other than a retiring Auditor, shall not be capable of being appointed Auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of Auditor has been given not less than fourteen (14) days before the annual general meeting and furthermore, the Company shall send a copy of any such notice to the retiring Auditor.

(3) The Members may, at any general meeting convened and held in accordance with these Articles, by special resolution remove the Auditor at any time before the expiration of his term of office and shall by ordinary resolution at that meeting appoint another Auditor in his stead for the remainder of his term.

156. Subject to the Law the accounts of the Company shall be audited at least once in every year.

157. The remuneration of the Auditor shall be fixed by the Company in general meeting or in such manner as the Members may determine.

158. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall as soon as practicable convene an extraordinary general meeting to fill the vacancy.

159. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or officers of the Company for any information in their possession relating to the books or affairs of the Company.

160. The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this act and name such country or jurisdiction.

NOTICES

161. Any Notice or document (including any "corporate communication" within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website or the website of the Designated Stock Exchange and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

162. Any Notice or other document:

- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website or the website of the Designated Stock Exchange is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
- (c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the act and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof; and
- (d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.

163. (1) Any Notice or other document delivered or sent by post to or left at the registered address of any Member in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such Notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

(2) A notice may be given by the Company to the person entitled to a share in consequence of the death, mental disorder or bankruptcy of a Member by sending it through the post in a prepaid letter, envelope or wrapper addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

(3) Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address being entered on the Register shall have been duly given to the person from whom he derives his title to such share.

SIGNATURES

164. For the purposes of these Articles, a cable or telex or facsimile or electronic transmission message purporting to come from a holder of shares or, as the case may be, a Director or alternate Director, or, in the case of a corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it and on its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director or alternate Director in the terms in which it is received.

WINDING-UP

165. (1) The Board shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up.

(2) A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

166. (1) Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) (if the Company shall be wound up and the assets available for distribution amongst the Members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding-up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding-up on the shares held by them respectively.

(2) If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Law, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(3) In the event of winding-up of the Company in Hong Kong, every Member of the Company who is not for the time being in Hong Kong shall be bound, within 14 days after the passing of an effective resolution to wind up the Company voluntarily, or the making of an order for the winding-up of the Company, to serve notice in writing on the Company appointing some person resident in Hong Kong and stating that person's full name, address and occupation upon whom all summonses, notices, process, orders and judgements in relation to or under the winding-up of the Company may be served, and in default of such nomination the liquidator of the Company shall be at liberty on behalf of such Member to appoint some such person, and service upon any such appointee, whether appointed by the Member or the liquidator, shall be deemed to be good personal service on such Member for all purposes, and, where the liquidator makes any such appointment, he shall with all convenient speed give notice thereof to such Member by advertisement as he shall deem appropriate or by a registered letter sent through the post and addressed to such Member at his address as appearing in the register, and such notice shall be deemed to be service on the day following that on which the advertisement first appears or the letter is posted.

INDEMNITY

167. (1) The Directors, Secretary and other officers and every Auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

(2) Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; PROVIDED THAT such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION
AND NAME OF COMPANY

168. No Article shall be rescinded, altered or amended and no new Article shall be made until the same has been approved by a special resolution of the Members. A special resolution shall be required to alter the provisions of the memorandum of association or to change the name of the Company.

INFORMATION

169. No Member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interests of the members of the Company to communicate to the public.

Hutchison Telecommunications International Limited

SHARE OPTION SCHEME

(As amended on 12 July 2005, 9 February 2006 and 8 May 2007)

I, CHOW WOO Mo Fong Susan, a director of Hutchison Telecommunications International Limited, hereby certify that, pursuant to paragraph 2.4 of the rules of the Share Option Scheme hereto attached, the conditions set out in paragraph 2.1 of such rules were satisfied on the date set out below and that such date is the "Adoption Date" as defined in such rules:

Adoption Date: 17 September 2004

(sd.) CHOW WOO Mo Fong Susan
Director

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1. **DEFINITIONS**

1.1 In this Scheme the following expressions shall have the following meanings:

“Adoption Date”

the date on which this Scheme becomes unconditional upon fulfilment of the conditions set out in paragraph 2.1;

“associate”

shall bear the meaning as defined in the Listing Rules;

“Auditors”

the auditors for the time being of the Company;

“Business Day”

any day on which the Stock Exchange is open for the business of dealing in securities;

“Company”

Hutchison Telecommunications International Limited, a company incorporated in the Cayman Islands with limited liability;

“connected person”

shall bear the meaning as defined in the Listing Rules;

“Directors”

the directors of the Company for the time being or a duly authorised committee thereof;

“Eligible Participants”

the persons who may be invited by the Directors to take up Options as referred to in paragraph 4.1;

“Eligible Employee”

any employee or consultant (as to functional areas of finance, business or personnel administration or information technology) (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any Subsidiary or any Invested Entity;

“Grantee”

any Eligible Participant who accepts the Offer in accordance with the terms of this Scheme or (where the context so permits and as referred to in paragraph 6.4(a)) his Personal Representative;

“Group”

the Company and its Subsidiaries;

“Hong Kong”

the Hong Kong Special Administrative Region of the People’s Republic of China;

“Invested Entity”

any entity in which any member of the Group holds an equity interest;

“Listing Rules”

the Rules Governing the Listing of Securities on the Stock Exchange;

“Offer”

an offer for the grant of an Option made in accordance with paragraph 4.3;

“Offer Date”

the date, which must be a Business Day, on which an Offer is made to an Eligible Participant or, in the case of an Offer for a further grant of Option under paragraph 8.3, the date, which must be a Business Day, of the meeting of the Directors for proposing such further grant;

“Option”

an option to subscribe for the Shares granted pursuant to this Scheme;

“Option Period”

in respect of any particular Option, a period (which may not expire later than 10 years from the Offer Date of that Option) to be determined and notified by the Directors to the Grantee thereof and, in the absence of such determination, from the date on which such Option is deemed to have been granted to the earlier of (i) the date on which such Option lapses under the provisions of paragraph 7 and (ii) the date falling 10 years from the Offer Date of that Option;

“Personal Representative(s)”

the person or persons who, in accordance with the laws of succession applicable in respect of the death of a Grantee (being an individual), is or are entitled to exercise the Option granted to such Grantee (to the extent not already exercised);

“Scheme”

this Share Option Scheme in its present form or as may be amended in accordance with paragraph 13;

“Shares”

shares of HK\$0.25 each in the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such subdivision, consolidation, reclassification or reconstruction;

“Stock Exchange”

The Stock Exchange of Hong Kong Limited or other principal stock exchange in Hong Kong for the time being or such other stock exchange which is the principal stock exchange (as determined by the Directors) on which the Shares are for the time being listed or traded;

“Subscription Price”

the price per Share at which a Grantee may subscribe for the Shares on the exercise of an Option pursuant to paragraph 6;

“Subsidiary”

a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong, the Cayman Islands or elsewhere;

“substantial shareholder”

shall bear the meaning as defined in the Listing Rules;

“Termination Date”

close of business of the Company on the date which falls ten (10) years after the Adoption Date; and

“HK\$”

Hong Kong dollars.

1.2 In this Scheme:

- (a) paragraph headings are for ease of reference only and shall be ignored in construing this Scheme;
- (b) references to paragraphs or sub-paragraphs are references to paragraphs or sub-paragraphs hereof;
- (c) words importing the singular include the plural and vice versa;
- (d) words importing one gender include both genders and the neuter and vice versa;
- (e) references to persons include bodies corporate and unincorporated;
- (f) references to any statutory provisions or rules prescribed by any statutory bodies shall include the same as from time to time amended, consolidated and re-enacted; and
- (g) references to any statutory body shall include the successor thereof and any body established to replace or assume the functions of the same.

2. CONDITIONS

2.1 This Scheme is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in any Shares to be allotted and issued by the Company pursuant to the exercise of Options in accordance with the terms and conditions of this Scheme, and the commencement of dealings in the Shares on the Stock Exchange;
- (b) the passing of the necessary resolution to approve and adopt this Scheme in general meeting or by way of written resolution of the shareholder(s) of the Company; and
- (c) the passing of the necessary resolution to approve this Scheme in general meeting of the shareholder(s) of Hutchison Whampoa Limited.

2.2 If the conditions referred to in paragraph 2.1 are not satisfied within a reasonable period (as determined by the Board), this Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of this Scheme.

2.3 Reference in paragraph 2.1 to the Listing Committee of the Stock Exchange formally granting the listing and permission referred to therein shall include any such listing and permission which are granted subject to the fulfilment of any condition precedent or condition subsequent.

2.4 A certificate of a Director that the conditions set out in paragraph 2.1 have been satisfied and the date on which such conditions were satisfied or that such conditions have not been satisfied as of any particular date and the exact date of the "Adoption Date" shall be conclusive evidence of the matters certified.

3. PURPOSE AND ADMINISTRATION

3.1 The purpose of this Scheme is to enable the Group to grant Options to the Eligible Participants as incentives or rewards for their contribution to the Group, to continue and/or render improved service with the Group, and/or to establish a stronger business relationship between the Group and such participants.

3.2 This Scheme shall be subject to the administration of the Directors whose decision on all matters arising in relation to this Scheme or their interpretation or effect shall (save for the grant of Options referred to in paragraph 4.11 and the change of the terms of an Option referred to in paragraph 8.5 which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.

3.3 Subject to paragraphs 2 and 14, this Scheme shall be valid and effective until the Termination Date, after which period no further Options may be issued but the provisions of this Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of this Scheme.

3.4 A Grantee shall ensure that the acceptance of an Offer, the holding and exercise of his Option in accordance with this Scheme, the allotment and issue of Shares to him upon the exercise of his Option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. The Directors may, as a condition precedent of making an Offer and allotting Shares upon an exercise of an Option, require an Eligible Participant to produce such evidence as it may reasonably require for such purpose.

4. GRANT OF OPTIONS

4.1 Subject to paragraphs 4.11 and 8, the Directors shall, in accordance with the provisions of this Scheme, be entitled but shall not be bound at any time within a period of ten (10) years commencing from the Adoption Date to make an Offer to any person belonging to the following classes of participants to subscribe, and no person other than the Eligible Participant named in such Offer may subscribe for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such Subscription Price as the Directors shall, subject to paragraph 9, determine:

- (a) any Eligible Employee;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any Subsidiary or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of any member of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (g) any other group or classes of participants contributing by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- (h) for the purposes of this Scheme, any company wholly owned by any one or more persons belonging to any one or more of the above classes of Eligible Participants.

For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of Option under this Scheme.

4.2 The eligibility of any of the Eligible Participants to an Offer shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

4.3 An Offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as the Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares and the Option Period in respect of which the Offer is made and further requiring the Eligible Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of this Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the Offer Date.

4.4 An Offer shall state, in addition to the matters specified in paragraph 4.3, the following:

- (a) the name, address, position and company of the Eligible Participant;
- (b) the number of Shares in respect of which the Offer is made and the Subscription Price for such Shares;
- (c) the Option Period in respect of which the Offer is made or, as the case may be, the Option Period in respect of separate parcels of Shares comprised in the Offer;
- (d) the last date by which the Offer must be accepted (which may not be later than 21 days from the Offer Date);
- (e) the procedure for acceptance;
- (f) the performance target(s) (if any) that must be attained by the Eligible Participant before any Option can be exercised;
- (g) such other terms and conditions of the Offer as may be imposed by the Directors as are not inconsistent with this Scheme; and
- (h) a statement requiring the Eligible Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of this Scheme including, without limitation, the conditions specified in paragraphs 3.4, 6.1 and 15.8 to 15.10, inclusive.

4.5 An Offer shall have been accepted by an Eligible Participant in respect of all Shares which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Participant together with a payment to the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the Offer (which shall not be later than 21 days from the Offer Date). Such payment shall in no circumstances be refundable.

4.6 Any Offer may be accepted by an Eligible Participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof (or if the number of Shares so indicated in the duplicate letter is not an integral multiple of a board lot, the number shall be deemed to be rounded down to the nearest integral number of a board lot) and such number is clearly stated in the duplicate letter comprising acceptance of the Offer duly signed by such Eligible Participant and received by the Company together with a payment to the Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the Offer (which may not be later than 21 days from the Offer Date).

4.7 Upon an Offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 4.5 or 4.6, an Option in respect of the number of Shares in respect of which the Offer was so accepted will be deemed to have been granted by the Company to such Eligible Participant on the Offer Date of such Offer. To the extent that the Offer is not accepted within the time specified in the Offer in the manner indicated in paragraph 4.5 or 4.6, it will be deemed to have been irrevocably declined.

4.8 The Option Period of an Option may not end later than ten (10) years after the Offer Date of that Option.

4.9 The Options will not be listed or dealt in on the Stock Exchange.

4.10 For so long as the Shares are listed on the Stock Exchange:

- (a) an Offer may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (ii) the last date on which the Company must publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no Offer may be made; and

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- (b) the Directors may not make any Offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code of securities dealing restrictions adopted by the Company.

4.11 Without prejudice to paragraph 8.4, the making of an Offer to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an Option).

4.12 The Company shall include in its annual report a summary of the terms of this Scheme and in its annual and half-year report information on the Options granted, in each case in accordance with the requirements of the Listing Rules.

5. SUBSCRIPTION PRICE

The Subscription Price in respect of any Option shall, subject to any adjustments made pursuant to paragraph 9, be at the discretion of the Directors, provided that it shall be not less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the Offer Date;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of the Shares for the five Business Days immediately preceding the Offer Date; and
- (c) the nominal value of a Share.

For the purpose of calculating the Subscription Price where the Shares have been listed for less than five Business Days, the new issue price shall be used as the closing price for any Business Day falling within the period before listing.

6. EXERCISE OF OPTIONS

6.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any Option or enter into any agreement so to do except for the transmission of an Option on the death of a Grantee to his Personal Representative(s). Any breach of the foregoing by a Grantee shall entitle the Company to cancel any Option granted to such Grantee to the extent not already exercised.

6.2 Unless otherwise determined by the Directors and stated in the Offer to a Grantee, a Grantee is not required to achieve any performance targets before the exercise of an Option granted to him.

6.3 Subject to paragraphs 3.4 and 15.8 and the fulfillment of all terms and conditions set out in the Offer, including the attainment of any performance targets stated therein, an Option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 6.4 and 6.5 by giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the Option remains unexercised is less than one board lot or where the Option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a payment for the full amount of the Subscription Price for Shares in respect of which the notice is given. Within 21 days (7 days in the case of an exercise pursuant to paragraph 6.4(c)) after receipt of the notice, the Company shall accordingly allot the relevant number of Shares to the Grantee (or, in the event of an exercise of Option by a Personal Representative pursuant to paragraph 6.4(a), to the estate of the Grantee) fully paid and issue to the Grantee (or his estate in the event of an exercise by his Personal Representative as aforesaid) a share certificate for every board lot of Shares so allotted and a share certificate for the balance (if any) of the Shares so allotted which do not constitute a board lot.

6.4 Subject as hereinafter provided, an Option may (and may only) be exercised by the Grantee at any time or times during the Option Period provided that:

- (a) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the Option in full, then, any outstanding offer of an Option which has not been accepted under paragraphs 4.5 and 4.6 and any unvested Option will lapse and his Personal Representative(s) or, as appropriate, the Grantee may exercise the vested Option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 6.3 within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with the Company or the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as the Directors may determine or, if any of the events referred to in paragraph 6.4(c) or 6.4(d) occur during such period, exercise the vested Option pursuant to paragraph 6.4(c) or 6.4(d) respectively;
- (b) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in paragraph 7.1(c) before exercising the Option in full, then, any outstanding offer of an Option which has not been accepted under paragraphs 4.5 and 4.6 and any unvested Option will lapse and the Grantee may exercise the vested Option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 6.3 within a period of 30 days or such longer period as the Directors may determine following the date of such cessation or termination or, if any of the events referred to in sub-paragraph 6.4(c) or 6.4(d) occur during such period, exercise the Option pursuant to paragraph 6.4(c) or 6.4(d) respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with the Company or the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;

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- (c) if a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them (whether at the time vested or unvested), shareholders of the Company. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to shareholders in the Company, the Grantee shall, notwithstanding any other terms on which his Options were granted (provided that any condition stated in the Offer pursuant to paragraph 4.4(f) must first be satisfied), be entitled to exercise the Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to the Company in accordance with the provisions of paragraph 6.3 at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, a vested or unvested Option (to the extent not already exercised) will lapse automatically on the date on which such offer (or, as the case may be, revised offer), closes; and
- (d) in the event of an effective resolution being proposed for the voluntary winding-up of the Company during the Option Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his vested Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 6.3 and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his vested Option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution.

6.5 Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Articles of Association of the Company for the time being in force and will, subject to the completion of the registration referred to below, rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the Option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members ("**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of the Company as the holder thereof.

7. EARLY TERMINATION OF OPTION PERIOD

7.1 The Option Period in respect of any Option shall automatically terminate and that Option (to the extent not already exercised) shall lapse on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the periods referred to in paragraph 6.4;
- (c) unless the Directors otherwise resolve in their absolute discretion, in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the Grantee or the Group or the Invested Entity into disrepute), or on any other ground which his employer would be entitled to terminate his contract of employment by summary dismissal;
- (d) in respect of a Grantee other than an Eligible Employee, the date on which the Directors shall at their absolute discretion determine that (i) the Grantee or his associate has committed any breach of any contract entered into between the Grantee or his associate on the one part and the Group or any Invested Entity on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; and (ii) the Option shall lapse; and
- (e) the date on which the Directors shall exercise the Company's right to cancel the Option by reason of a breach of paragraph 6.1 by the Grantee in respect of that or any other Option.

7.2 A resolution of the Directors to the effect that the employment of a Grantee has or has not been terminated on one or more of the grounds specified in paragraph 7.1(c) or that any event referred to in paragraph 7.1(d)(i) has occurred shall be conclusive.

8. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

8.1 The maximum number of Shares which may be allotted and issued upon exercise of all outstanding Options granted and yet to be exercised under this Scheme and any other share option schemes adopted by the Group shall not exceed 30 per cent. of the relevant class of securities of the Company (or the Subsidiary) in issue from time to time. The maximum number of Shares the subject of all Options shall include all Shares falling to be issued upon the exercise of any Option by any Grantee (to the extent not already exercised) together with all Shares which have already been issued pursuant to the exercise of any Option, including options granted under any other employee share option schemes of the Group. No options may be granted under this Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit referred to in this paragraph 8.1 being exceeded.

8.2 The total number of Shares which may be allotted and issued upon exercise of all Options (excluding, for this purpose, options which have lapsed in accordance with the terms of this Scheme and any other share option scheme of the Group) to be granted under this Scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent. of relevant class of securities of the Company (or the Subsidiary) in issue as at the date on which the Shares are first listed and from which dealings therein are permitted to take place on the Stock Exchange (“**General Scheme Limit**”) provided that:

- (a) subject to paragraph 8.1 and without prejudice to paragraph 8.2(b), the Company may, in compliance with paragraph 8.6, seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all Options to be granted under this Scheme and any other share option scheme of the Group must not exceed 10 per cent. of the relevant class of securities of the Company (or the Subsidiary) in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with this Scheme and any other share option scheme of the Group) previously granted under this Scheme and any other share option scheme of the Group will not be counted; and
- (b) subject to paragraph 8.1 and without prejudice to paragraph 8.2(a), the Company may, in compliance with paragraph 8.6, seek separate shareholders’ approval in general meeting to grant Options under this Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 8.2(a) to Eligible Participants specifically identified by the Company before such approval is sought.

8.3 Subject to paragraph 8.4, the total number of Shares issued and which may fall to be issued upon exercise of the Options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed one (1) per cent. of the issued share capital of the Company for the time being. Where any further grant of Options to a Grantee under this Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under this Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over one (1) per cent. of the Shares in issue, such further grant must, subject to paragraph 8.6, be separately approved by shareholders of the Company in general meeting with such Grantee and his associates abstaining from voting. The number and terms (including the Subscription Price) of the Options to be granted (and Options previously granted to such Grantee) must be fixed before the approval of the shareholders of the Company and the date of the meeting of the Directors proposing such further grant should be taken as the date of grant for the purpose of calculating the Subscription Price.

8.4 Without prejudice to paragraph 4.11 and subject to paragraph 8.6, where any grant of Options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1 per cent. of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the Offer Date of each Offer, in excess of HK\$5 million;

such further grant of Options must be approved by shareholders of the Company in general meeting.

8.5 Any change in the terms of an Option granted to any Grantee who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, must, subject to paragraph 8.6, be approved by shareholders of the Company in general meeting.

8.6 For the purpose of seeking the approval of the shareholders of the Company under paragraphs 8.2, 8.3, 8.4 and 8.5, the Company shall send a circular to the shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with the following persons abstaining from voting:

- (a) in the case of a further grant of Option under paragraph 8.3, the proposed Grantee and his associates; and
- (b) in the case of a grant of Option under paragraph 8.4 and/or any proposed change in the terms of an Option granted as referred to in paragraph 8.5, all connected persons of the Company, except that any connected person must abstain from voting in favour at the general meeting.

9. ADJUSTMENTS TO THE SUBSCRIPTION PRICE

9.1 In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable or this Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue of securities to holders of the Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of the Company, but excluding Options under this Scheme and options under any other similar share option scheme of the Group), consolidation, subdivision or reduction of the share capital of the Company, then, in any such case the Company shall make an adjustment, if any, to:

- (a) the number or nominal amount of Shares to which this Scheme or any Option(s) relates (insofar as it is/they are unexercised); and/or

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- (b) the Subscription Price of any Option; and/or
 - (c) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an Option or which remain comprised in an Option; and/or
 - (d) the method of exercise of any Option; and/or
 - (e) the maximum number of Shares referred to in paragraph 8 above,
provided that:
 - (aa) any such adjustment shall give the Grantee the same proportion of the issued share capital of the Company for which such Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustment;
 - (bb) any such adjustment shall be made on the basis that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;
 - (cc) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
 - (dd) the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment.

In respect of any adjustment referred to in this paragraph 9.1, other than any made on a capitalisation issue, the Auditors or such independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

9.2 If there has been any alteration in the capital structure of the Company as referred to in paragraph 9.1, the Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 6.3, inform the Grantee of such alteration and shall inform the Grantee of the adjustment to be made.

9.3 In giving any confirmation under this paragraph 9, the Auditors or the independent financial adviser appointed under paragraph 9.1 shall be deemed to be acting as experts and not as arbitrators and their confirmation shall, in the absence of manifest error, be final, conclusive and binding on the Company and all persons who may be affected thereby.

9.4 Upon distribution by the Company to holders of the Shares of any cash (other than the Transaction Special Dividend (as defined in the Company's circular to shareholders dated 4 April 2007) or dividends in the ordinary course), the Company shall make a downward adjustment to the Subscription Price of any Option granted but not exercised as at the date of such distribution by an amount which the Directors consider as reflecting the impact such distribution will have or will likely to have on the trading price of the Shares provided that (i) the Directors' determination of any adjustments shall be final and binding on all Optionholders; (ii) the amount of adjustment shall not exceed the amount of such cash distribution to be made to holders of the Shares; (iii) such adjustment shall take effect on the date of payment by the Company of such distribution; (iv) any adjustment provided for in this paragraph shall be cumulative to any other adjustments contemplated under paragraph 9.1 or approved by the shareholders of the Company in general meeting; and (v) the adjusted Subscription Price shall not, in any case, be less than the nominal value of the Shares.

10. CANCELLATION OF OPTIONS

10.1 Subject to paragraph 6.1, any Option granted but not exercised may not be cancelled except with the written consent of the relevant grantee and the prior approval of the Directors at their absolute discretion.

10.2 Where the Company cancels any Option granted to a Grantee but not exercised and issues new Option(s) to the same Grantee, the issue of such new Option(s) may only be made with available unissued Options (excluding, for this purpose, the Options so cancelled) within the General Scheme Limit or the limits approved by the shareholders of the Company pursuant to paragraph 8.2(a) or 8.2(b).

11. SHARE CAPITAL

The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Directors shall make available sufficient authorised but unissued share capital of the Company to allot the Shares on the exercise of any Option.

12. DISPUTES

Any dispute arising in connection with the number of Shares the subject of an Option, or any adjustment under paragraph 9.1 shall be referred to the decision of the Auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

13. ALTERATION OF THIS SCHEME

13.1 Subject to paragraphs 13.2 and 13.4 this Scheme may be altered in any respect by a resolution of the Directors except that:

- (a) the provisions of this Scheme as to the definitions of "Eligible Participants", "Grantee", "Option Period" and "Termination Date" set out in paragraph 1.1;

(b) the provisions of this Scheme relating to the matters governed by Rule 17.03 of the Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of the Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the holders of the Shares under the Articles of Association for the time being of the Company for a variation of the rights attached to the Shares.

13.2 Subject to paragraph 13.3, any alterations to the terms and conditions of this Scheme which are of a material nature shall be approved by the shareholders of the Company except where the alterations take effect automatically under the existing terms of this Scheme.

13.3 Any change to the authority of the Directors or the administrators of this Scheme in relation to any alteration to the terms of this Scheme must be approved by the shareholders of the Company in general meeting.

13.4 The terms of this Scheme and/or any Options amended pursuant to this paragraph 13 must comply with the applicable requirements of the Listing Rules.

14. TERMINATION

The Company by resolution in general meeting may at any time terminate the operation of this Scheme and in such event no further Options will be offered but in all other respects the provisions of this Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of this Scheme and Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with this scheme.

15. MISCELLANEOUS

15.1 This Scheme shall not form part of any contract of employment between the Company, any Subsidiary or any Invested Entity and any Eligible Employee and the rights and obligations of any Eligible Employee under the terms of his office or employment shall not be affected by his participation in this Scheme or any right which he may have to participate in it and this Scheme shall afford such an Eligible Employee no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.

15.2 This Scheme shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against the Company directly or indirectly or give rise to any cause of action at law or in equity against the Company.

15.3 The Company shall bear the costs of establishing and administering this Scheme, including any costs of the Auditors or any independent financial adviser in relation to the preparation of any confirmation by them or provision of any other service in relation to this Scheme.

15.4 A Grantee shall be entitled to receive copies of all notices and other documents sent by the Company to holders of the Shares at the same time or within a reasonable time of any such notices or documents being sent to holders of Shares.

15.5 Any notice or other communication between the Company and a Grantee may be given by sending the same by prepaid post or by personal delivery to, in the case of the Company, its principal place of business in Hong Kong and, in the case of the Grantee, his address in Hong Kong as notified to the Company from time to time or, if none or incorrect or out of date, his last place of employment with the Company, Subsidiary or Invested Entity or the Company's, Subsidiary's or Invested Entity's principal place of business in Hong Kong from time to time.

15.6 Any notice or other communication if sent by the Grantee shall be irrevocable and shall not be effective until actually received by the Company.

15.7 Any notice or other communication if sent to the Grantee shall be deemed to be given or made:

(a) one (1) day after the date of posting, if sent by mail; and

(b) when delivered, if delivered by hand.

15.8 A Grantee shall, before accepting an Offer or exercising his Option, obtain all necessary consents that may be required to enable him to accept the Offer or to exercise the Option and the Company to allot and issue to him in accordance with the provisions of this Scheme the Shares falling to be allotted and issued upon the exercise of his Option. By accepting an Offer or exercising his Option, the Grantee thereof is deemed to have represented to the Company that he has obtained all such consents. Compliance with this paragraph shall be a condition precedent to an acceptance of an Offer by a Grantee and an exercise by a Grantee of his Options.

15.9 A Grantee shall pay all tax and discharge all other liabilities to which he may become subject as a result of his participation in this Scheme or the exercise of any Option.

15.10 By accepting an Offer, an Eligible Participant shall be deemed irrevocably to have waived any entitlement, by way of compensation for loss of office or otherwise howsoever, to any sum or other benefit to compensate him for loss of any rights under this Scheme.

15.11 Where these Rules require matters to be approved by the shareholders or independent non-executive Director of the Company, such matters must be simultaneously be approved by the shareholders or independent non-executive directors of Hutchison Whampoa Limited where such approval by the shareholders or independent non-executive directors of Hutchison Whampoa Limited is required under Chapter 17 of the Listing Rules.

15.12 This Scheme and all Options granted hereunder shall be governed by and construed in accordance with the laws of Hong Kong.

***** End of the Scheme *****

DATED

27 July 2005

- (1) PT Asia Mobile
- (2) Asia Telecommunication Technology Ltd.
- (3) CAC Holdings (Netherlands) B.V.
- (4) PT Cyber Access Communications

SHAREHOLDERS' AGREEMENT

THIS AGREEMENT is made on 27 July 2005

BETWEEN:

- (1) **PT Asia Mobile**, a limited liability company duly established and validly existing under the laws of the Republic of Indonesia with its principal office at JL. Ancol VIII No. 1, Ancol Barat, Jakarta 14430, Indonesia (“**PT AM**”);
- (2) **Asia Telecommunications Technology Ltd**, an international business company duly established and validly existing under the laws of the British Virgin Islands with its principal office at c/o Offshore Incorporations Centre, PO Box 957 Road Town, Torlola, British Virgin Islands (“**ATT**” and together with PT AM, the “**PT AM Party**”, who enter into this Agreement on a joint and several basis and on the basis described in Clause 12.5);
- (3) **CAC Holdings (Netherlands) B.V.**, a company duly organised and validly existing under the laws of the Netherlands, with its registered office at De Boelelaan 7 Official, 1083 H J, Amsterdam (“**Hutchison**”); and
- (4) **PT Cyber Access Communications**, a limited liability company, duly established and validly existing under the laws of the Republic of Indonesia with foreign investment (PMA) status with its principal office at Wisma Barito Pacific, 2nd Floor, Tower B, Jl. Letjend, S. Parman Kav, 62–63 Slipi, Jakarta 11410, Indonesia (the “**Company**”).

RECITALS:

- A. On the date hereof the Company has an authorised share capital of Rp. 200bn divided into 2,000,000 Shares of Rp. 100,000 each. Six hundred and thirty–nine thousand (639,000) Shares of such authorised share capital have been issued and fully paid and are owned as to 236,490 Shares or 37.01% of the issued share capital by PT AM and as to 19,110 Shares or 2.99%, by ATT. Three hundred and eighty–three thousand four hundred (383,400) Shares of such authorised share capital have been issued and fully paid and have been acquired by and are owned by Hutchison and represent 60% of the issued share capital of the Company.
- B. The Parties wish to enter into this Agreement to regulate their rights and obligations as shareholders of the Company and the manner in which the Company will be managed and operated.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Defined Terms

In this Agreement (including the Recitals and Schedules), the following definitions shall apply unless the context requires otherwise.

“**Affiliate**” means, in relation to any person, a subsidiary or any holding company of such person and any subsidiary of any such holding company.

“**Annual Business Plan**” means the annual business plan adopted by the Board of Directors pursuant to Clause 4.

“**Arbitration Notice**” is defined in Clause 28.1.

“**Articles of Association**” means the articles of association of the Company as agreed by the Shareholders pursuant to this Agreement, as these may be altered, added to or amended from time to time in accordance with the provisions of this Agreement.

“**Auditor**” means Kantor Akuntan Publik Haryanto Sahari & Rekan or such other Indonesian registered accountant affiliated with a big five international accounting firm which is nominated by Hutchison as the auditor of Company from time to time.

“**Authorised Sum**” means US\$50,000,000 (or Rupiah equivalent at the Reference Exchange Rate).

“**BKPM**” means the *Badan Koordinasi Penanaman Modal* (Capital Investment Coordinating Board) of Indonesia and “**BKPM**” means the regional office of BKPM with jurisdiction over the Company (*Badan Ko-ordinasi Penanaman Modal Daerah*) or its successor.

“**Board of Commissioners**” means the Board of Commissioners (*Dewan Komisaris*) of Company.

“**Board of Directors**” means the Board of Directors (*Dewan Direksi*) of the Company.

“**Business**” means the exploitation within Indonesia of the radio spectrum granted to the Company under the CO Licence including the construction and development of network and associated IT and other infrastructure (through outsourcing or otherwise) and the provision of services under the CO Licence.

“**Business Day**” means any day on which banks in Hong Kong, Thailand and Indonesia are officially open for business generally except for Saturday and Sunday and, in the case of a payment of US\$ or the calculation of a Reference Exchange Rate only, any day on which banks in New York are open for business generally except for Saturday and Sunday.

“**Business Plan**” means the Original Business Plan and thereafter each Annual Business Plan as amended from time to time in accordance with this Agreement.

“**Change of Control**” means any transaction or event whereby any person acquires Control of PT AM or any person who previously had Control of PT AM ceases to have Control of PT AM provided that where, notwithstanding such transaction or event, Control continues to be held by any Affiliate of the person who had Control prior to such transaction or event, this shall not be a Change of Control.

“**CO Licence**” means the Cellular Operating Licence No. KP.11 of 2004 dated 5 October 2004 to use specific frequencies of the spectrum granted to the Company by the MOC pursuant to Government Regulation Number 53 of 2000 regarding the use of Radio Frequency and Spectrum and Satellite Orbit and such other similar or ancillary licences that may be granted to the Company from time to time.

“Commissioner” means a member of the Board of Commissioners.

“Company Group” means the Company and its subsidiaries for the time and “Company Group Member” means any of them.

“Control” means in relation to a company (i) owning shares which comprise more than 50% of the shares in that company having the right to vote, or (ii) having the ability to appoint a majority of the board of directors (and where the company is incorporated in Indonesia, the board of commissioners) or otherwise to control management decisions of the company whether through rights attaching to shares held, by contractual arrangement or otherwise, and provided that where any entity has Control of a second entity which in turn has Control of a third entity, that first entity shall be considered to Control the third entity.

“Counter Indemnity” means a performance or financial guarantee (or a counter indemnity of a performance or financial guarantee) guaranteeing performance by any Company Group Member of a commercial contract or obligation of any Company Group Member or under a borrowing or other fund raising by any Company Group Member.

“Director” means a member of the Board of Directors.

“Encumbrance” means any mortgage, pledge, security interest (*hak tanggungan*), fiduciary security (*fidusia*), assignment (*cessie*), lien, hypothecation, charge or any other form of security interest in the nature of a security interest (including any power of attorney or option granted over in respect of any asset or rights attaching thereto).

“Equity Proportions” means the respective proportions from time to time in which the Shareholders hold Shares at the relevant time.

“Financial Year” means a financial period of the Company commencing on 1 January and ending on 31 December each year.

“Foreign Shareholder” means any non-Indonesian Shareholder of the Company, being as at the date of this Agreement, Hutchison and ATT.

“Governmental Agency” means any government or any governmental, semi-governmental or judicial, department, agency, entity or authority of the nation, state, region, district or other political subdivision of Indonesia, or other relevant jurisdiction (as the case may require).

“Governmental Approval” includes (a) any licence, consent, authorization, registration, filing, lodgement, agreement, notarization, certificate, permission, license, approval, authority or exemption from, by or with a Governmental Agency or (b) the expiry of a specified period without intervention or action in relation to anything which will be fully or partly prohibited or restricted by law if a Governmental Agency intervenes or acts in any way within such period after lodgement, filing, registration or notification.

“**Indonesia**” means the Republic of Indonesia.

“**MOC**” means the Ministry of Communications and Information of Indonesia.

“**MOLHR**” means Ministry of Law and Human Rights of the Republic of Indonesia.

“**Network**” means the network from time to time utilising radio spectrum specified in the CO License to provide mobile telecommunication services in Indonesia.

“**Non-Funding Shareholder**” means a Shareholder who has not fully complied with a Funding Call Notice by the date on which the Shareholder Funds are to be given or advanced in accordance with the Funding Call Notice as referred to in Clause 11.3.

“**Party**” means one or all of the parties to this Agreement (as the context requires).

“**Reference Exchange Rate**” means the mid-rate between the bid and offer rates of exchange of The Hongkong and Shanghai Banking Corporation Limited for the purchase of Rupiah with Dollars at 5:00 p.m., Hong Kong time, on the date that is five (5) Business Days prior to the relevant date.

“**Regulatory Action**” means:

- (a) any order of a court of competent jurisdiction; or
- (b) any order, decision or conclusive view made, given or expressed by a competent Governmental Agency or regulatory authority or agency.

“**RPI Index**” means the general index of consumer prices in Indonesia published by the Indonesian Biro Pusat Statistik each month in respect of all items or any index which replaces that index.

“**Share**” means a fully paid ordinary share in the capital of the Company.

“**Shareholder**” means any individual, company or organization registered from time to time as a shareholder of the Company.

“**Shareholder Group**” means a Shareholder and its Affiliates from time to time.

“**Shareholder Loan**” means a loan by any Shareholder (or any member of its Shareholder Group) to the Company or any Company Group Member on the terms agreed between the Parties.

1.2 Interpretation

In interpreting this Agreement, headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- 1.2.1 The singular includes the plural and conversely.
- 1.2.2 A gender includes all genders.
- 1.2.3 Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- 1.2.4 A reference to a person includes a company, an unincorporated body or other legal entity and conversely.
- 1.2.5 A company is a subsidiary of another company (its holding company) if the second company holds more than 50% of the voting shares in the capital of the first company.
- 1.2.6 A reference to a Clause, Recital or Schedule is to a clause of or recital or schedule to this Agreement.
- 1.2.7 A reference to any Party or party to any other agreement or document includes that Party's or the relevant party's successors and permitted assigns (if any).
- 1.2.8 A reference to any agreement or document is to that agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by this Agreement or that other agreement or document.
- 1.2.9 A reference to any law, enactment, legislation, regulation, decree or directive or to any provision of any law, regulation, enactment, decree or directive includes any modification or re-enactment of it, any legislative or statutory provision substituted for it, and all regulations and statutory instruments issued under or in respect of it.
- 1.2.10 A reference to *Dollars* or *US\$* is to the lawful currency of the United States of America.
- 1.2.11 A reference to *Rupiah* or *Rp* is to the lawful currency of Indonesia and reference to *bn* is to 1,000,000,000 Rupiah.
- 1.2.12 Each Schedule, and each certificate and document delivered under this Agreement forms part of this Agreement.

2. BUSINESS OF COMPANY

Notwithstanding anything contained in the Articles of Association, the Parties agree that the Company shall solely engage in the Business.

3. RELATIONSHIP OF THE PARTIES

3.1 Articles of Association

Subject to the approval of the MOLHR (if required under applicable law), the Articles of Association as at the date of this Agreement shall be in the form agreed by the Shareholders on or before the date of this Agreement.

3.2 Failure to approve Articles

If any provision of the Articles of Association is not approved by the MOLHR to the extent required under applicable law, the Parties will use their best efforts to agree to a substitute provision and will use their best efforts to have such substitute provision incorporated into the Articles of Association.

3.3 This Agreement to Prevail

By signing this Agreement (or any document by which another person or entity is later admitted as a Party), each Party irrevocably agrees that if there is any conflict or inconsistency between the provisions of this Agreement and the Articles of Association then:

3.3.1 as between the Parties, the provisions of this Agreement shall prevail;

3.3.2 in any event, notwithstanding any other provision of this Agreement or the Articles of Association, each party shall at all times exercise the voting rights attaching to the Shares held by it and other powers of control available to it in relation to the Company (however arising) strictly to give effect to the terms, requirements and intention of this Agreement and no party shall exercise the voting rights attaching to the Shares held by it and other powers of control available to it in relation to the Company (however arising) in a manner which defeats or is otherwise inconsistent with the terms, requirements or intention of this Agreement; and

3.3.3 the Parties shall forthwith use their best endeavours to procure an amendment to the Articles of Association so as to remove such conflict or inconsistency.

3.4 Relationship of Parties

Nothing herein shall be deemed to make any Party a partner or fiduciary of any other Party or to impose on any Party any fiduciary obligations with respect to the other Parties.

4. BUSINESS PLAN

4.1 The first Business Plan for the Company Group shall be adopted as soon as practicable after the date of this Agreement.

4.2 Thereafter, Hutchison shall procure that the management of the Company prepares and submits to the Board of Directors (before the commencement of the Financial Year in question) an annual business plan in respect of the Company Group for each Financial Year (the *Annual Business Plan*) commencing with the Financial Year beginning 1 January 2006.

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- 4.3 Each draft Business Plan shall be delivered to Hutchison and PT AM (and PT AM shall provide a copy to ATT) not later than one (1) week prior to the proposed Board of Directors meeting at which such draft Business Plan is to be considered.
- 4.4 The Parties acknowledge and agree that the purpose of each Business Plan is to set out the strategic direction of the Company Group over the five Financial Years immediately following the date of the Business Plan and the agreed financial objectives and budget of the Company Group for the Financial Year immediately following the date of the Business Plan.
- 4.5 If the Board of Directors has not approved a Business Plan on or prior to the expiry of any Financial Year, the parties agree that the Company Group shall continue to conduct its day to day business in accordance with the last Business Plan and to incur costs for day to day expenditure in line with the last budget (adjusted by reference to the change in the RPI Index between the start and end of the Financial Year then expired) until such time as a new Business Plan is submitted to and approved by the Board of Directors.

5. ISSUES OF SHARES FOR CASH

- 5.1 The provisions of Clause 5.2 shall, notwithstanding any other provision of this Agreement, bind and apply for the benefit of each Shareholder.
- 5.2 Subject to Clauses 10.2(c) and 11, if the Company wishes to allot or issue new Shares where such Shares are to be paid up wholly in cash, each Shareholder shall be entitled to subscribe, in cash at the same price and on the same terms as those offered to other persons to whom the shares are to be offered, up to such number of those new shares as will leave each such Shareholder holding such proportion of the voting share capital as it held immediately prior to the allotment or issue (assuming that each Shareholder takes up its entitlement hereunder in full).

6. MAINTENANCE OF MINIMUM INDONESIAN SHARE OWNERSHIP

- 6.1 PT AM shall not transfer any Shares to any person at any time where to do so would result in a failure to satisfy or a breach of the requirements of the law of Indonesia, all relevant Government Agencies and their telecommunications regulatory policies or the terms of any Government Approval as to the minimum Indonesia equity ownership in the Company as in force from time to time and ATT shall transfer any Shares held by it to PT AM to the extent that the Shares held by PT AM fail to satisfy any such requirement.

6.2 The PT AM Party undertakes to procure that any transferee of its Shares shall provide to Hutchison the same agreement and undertaking as set out in Clause 6.1 and that the transfer of Shares is subject to the transferee providing such agreement and undertaking to Hutchison.

7. MANAGEMENT

7.1 Company to have Board of Directors and Board of Commissioners

The Company shall be managed by a Board of Directors (*Dewan Direksi*) under the supervision of a Board of Commissioners (*Dewan Komisaris*). Members of the Board of Directors and members of the Board of Commissioners shall be appointed by the general meeting of Shareholders, subject to the provisions of this Agreement and the Articles of Association.

7.2 Composition of Board of Directors

7.2.1 Subject to the provisions of Clauses 7.2.2 and 7.2.4, each of Hutchison and the PT AM Party shall be entitled to nominate for appointment to the Board of Directors five and three Directors respectively and shall be entitled to remove and replace each such Director from time to time.

A nomination made by a Shareholder under this Clause 7.2 shall be binding on each other Shareholder.

7.2.2 For so long as a Shareholder holds not less than thirty (30) per cent of the Shares, it shall be entitled to nominate, remove and replace at least three Directors. Where a Shareholder holds not less than twenty (20) per cent but less than thirty (30) per cent of the Shares, it shall be entitled to nominate, remove and replace two Directors. Where a Shareholder holds not less than fifteen (15) per cent but less than twenty (20) per cent of the Shares, it shall be entitled to nominate, remove and replace one Director. A Shareholder shall not be entitled, under this Agreement, to nominate (remove and replace) any Director to the Board of Directors if its holding of Shares is less than fifteen (15) per cent of the Shares. As applied to Hutchison, this Clause is subject to Clauses 7.2.1 and 7.2.4.

7.2.3 The President Director shall be nominated by Hutchison.

7.2.4 Notwithstanding Clauses 7.2.1 and 7.2.2, for so long as Hutchison has the largest holding of shares of any Shareholder, Hutchison shall be entitled to nominate for appointment to the Board of Directors a total number of Directors which is two greater than the number of Directors all other Shareholders are, in aggregate, entitled to nominate for appointment and to remove and replace any such Director from time to time.

7.2.5 Each Shareholder shall vote its Shares to give effect to the binding nominations of the members of the Board of Directors which have been made by a Shareholder in exercise of a right under this Agreement (but not otherwise). Each Shareholder shall be entitled, for so long as it has a nomination right under this Agreement pursuant to Clause 7.2.2, at any time to remove and replace any of its nominees on the Board of Directors and in such event each Shareholder shall vote its Shares so as to give effect to the appointment of the nominated replacement to the Board of Directors in further exercise of rights under clause 7.2.2 (but not otherwise).

7.2.6 In the event of a vacancy on the Board of Directors caused by the death, retirement, resignation or removal of a director, the vacancy shall be filled by appointing another nominee of the Shareholder whose nominee has died, retired, resigned or been removed.

7.2.7 Subject to the Articles of Association, neither Hutchison nor the PT AM Party shall make any change to their respective membership of the Board of Directors otherwise than in accordance with this Clause 7.

7.2.8 Subject to the Articles of Association and the terms of this Agreement, the Board of Directors shall:

- (a) represent and be responsible for the day-to-day administration, operation and management of the Company and its assets; and
- (b) from time to time determine the organisational structure of the Company and the reporting responsibilities of the management of the same,

in each case so as to implement the Business Plan.

7.3 **Powers of President Director**

7.3.1 The President Director shall be entitled to represent the Board of Directors and therefore to act for and on behalf and in the name of and to bind the Company within and outside the Courts of law, subject to any limitations set out in this Agreement, the Articles of Association or by applicable mandatory laws and regulations.

7.3.2 The President Director shall appoint the persons designated by the Hutchison in its sole discretion, to be the senior management team (who are not Directors) of the Company, except the Deputy Chief Financial Officer (if not a Director) who shall be nominated by PT AM.

7.4 **Board of Commissioners**

7.4.1 Subject to the provisions of Clauses 7.4.2 and 7.4.4, each of Hutchison and the PT AM Party shall be entitled to nominate for appointment to the Board of Commissioners, five and three Commissioners respectively and shall be entitled to remove and replace each such Commissioner from time to time.

A nomination made by a Shareholder under this Clause 7.4 shall be binding on each other Shareholder.

- 7.4.2 For so long as a Shareholder holds not less than thirty (30) per cent of the Shares, it shall be entitled to nominate, remove and replace at least three Commissioners. Where a Shareholder holds not less than twenty (20) per cent but less than thirty (30) per cent of the Shares, it shall be entitled to nominate, remove and replace two Commissioners. Where a Shareholder holds not less than fifteen (15) per cent but less than twenty (20) per cent of the Shares, it shall be entitled to nominate, remove and replace one Commissioner. A Shareholder shall not be entitled, under this Agreement, to nominate (remove and replace) any Commissioner to the Board of Commissioners if its holding of Shares is less than fifteen (15) per cent of the Shares. As it applies to Hutchison, this Clause is subject to Clauses 7.4.1 and 7.4.4.
- 7.4.3 The President Commissioner shall be nominated by Hutchison.
- 7.4.4 For so long as Hutchison has the largest holding of shares of any Shareholder, Hutchison shall be entitled to nominate for appointment to the Board of Commissioners a total number of Commissioners which is two greater than the number of Commissioners all other Shareholders are, in aggregate, entitled to nominate for appointment, and to remove and replace any such Director from time to time.
- 7.4.5 Each Shareholder shall vote its Shares to give effect to the binding nominations of the members of the Board of Commissioners which have been made by a Shareholder in exercise of a right under this Agreement (but not otherwise). Each Shareholder shall be entitled, for so long as it has a nomination right under this Agreement pursuant to Clause 7.2.2, to remove and replace at any time any of its nominees on the Board of Commissioners and in such event each Shareholder shall vote its Shares so as to give effect to the appointment of the nominated replacement to the Board of Commissioners in further exercise of rights under clause 7.2.2 (but not otherwise).
- 7.4.6 In the event of a vacancy on the Board of Commissioners caused by the death, retirement, resignation or removal of a member, the vacancy shall be filled by appointing another nominee of the Shareholder whose nominee has died, retired, resigned or been removed.

7.5 Conflicts of Interest

Persons nominated for the position of member of the Board of Directors or member of the Board of Commissioners shall not be deemed disqualified to hold such office merely by reason of their being officers, directors, commissioners or shareholders of any other company incorporated within or outside Indonesia. In addition, no member of the Board of Directors or member of the Board of Commissioners shall be deemed to have a conflict of interest in a matter and shall not be disqualified to vote and/or serve on the ground that such Director or Commissioner is appointed upon the nomination of a particular Shareholder and the matter under consideration involves commercial, financial or other relationship between Company and that Shareholder or any Affiliate of that Shareholder provided that the relevant member of the Board of Directors or Board of Commissioners has disclosed to the Company the nature of any such relationship prior to consideration of that matter.

8. DIRECTORS MEETINGS AND COMMISSIONERS' MEETINGS

8.1 Board of Directors' Meetings

- 8.1.1 The Board of Directors shall meet at least at least once each year and more frequently as required for the proper management of Company. All Board of Director's meetings shall be conducted in English. Resolutions may be passed in lieu of meeting by adopting a written resolution signed by all of the Directors.
- 8.1.2 The quorum for meetings of the Board of Directors shall be the attendance or representation at the meeting of a simple majority of the members of the Board of Directors but including one of the Directors nominated by each of Hutchison and the PT AM Party. If a quorum is not present within 30 minutes of the time set for the meeting of the Board of Directors there shall be an automatic adjournment or reconvening of that meeting to the same time and place on the date one week after the original date of the meeting (or, if a later date is required by law, that later date). At that subsequent adjourned or reconvened meeting the quorum shall be a simple majority of the members of the Board of Directors including at least one Director nominated by Hutchison.
- 8.1.3 Unless otherwise provided in this Agreement or the Articles of Association, the level of affirmative vote required to pass a resolution at all meetings of the Board of Directors shall be a simple majority of the members of the Board of Directors present or represented at the meeting.

8.2 Board of Commissioners' meetings

- 8.2.1 The Board of Commissioners shall meet at least once a year and more frequently as required for the Board of Commissioners to duly perform its functions.
- 8.2.2 The quorum for meetings of the Board of Commissioners shall be the attendance or representation at the meeting of a simple majority of the members of the Board of Commissioners but including one of the Commissioners nominated by each of Hutchison and the PT AM Party. If a quorum is not present within 30 minutes of the time set for the meeting of the Board of Commissioners there shall be an automatic adjournment or reconvening of that meeting to the same time and place on the date one week after the original date of the meeting (or, if a later date is required by law, that later date). At that subsequent reconvened or adjourned meeting the quorum shall be a simple majority of the members of the Board of Commissioners provided at least one of the Commissioners nominated by Hutchison is present.

8.2.3 Unless otherwise provided of in this Agreement or the Articles of Association, the level of affirmative vote required to pass a resolution at all meetings of the Board of Commissioners shall be a simple majority of the members of the Board of Commissioners present or represented at the meeting. All Board of Commissioners' meetings shall be conducted in English. Resolutions may be passed in lieu of meeting by adopting a written resolution signed by all of the Commissioners.

9. GENERAL MEETINGS OF SHAREHOLDERS

9.1 Annual General Meetings

An Annual General Meeting of Shareholders shall be held once a year in accordance with applicable law.

9.2 Chairman of General Meeting of Shareholders

Subject to the Articles of Association, the President Director shall act as the chairman of all general meetings of Shareholders.

9.3 Each Share Carries One Vote

At any general meeting of Shareholders a Shareholder shall have 1 (one) vote for each share of which it is the registered Shareholder.

9.4 Quorum and Voting at General Meetings of Shareholders

Except as otherwise provided for in this Agreement or the Articles of Association:

9.4.1 the quorum for a general meeting of Shareholders shall be Shareholders holding or representing more than one half of the total issued Shares in Company but including a representative of one of the PT AM Parties. If a quorum is not present within 30 minutes of the time set for the general meeting of Shareholders there shall be an automatic adjournment or reconvening of that meeting to the same time and place on the date one week after the original date of the meeting (or, if a later date is required by law, that later date). At that subsequent adjourned or reconvened meeting the quorum shall be Shareholders holding or representing more than one half of the total issued Shares in the Company; and

9.4.2 decisions at a general meeting of Shareholders shall be adopted if approved by Shareholders holding or representing more than one half of the total issued Shares in Company.

10. RESERVED MATTERS

10.1 In relation to each of the matters specified in Clause 10.2 (the *Reserved Matters*), the Company shall not, and each of Hutchison and the PT AM Party shall exercise all voting rights and other powers of control available to it in relation to Company so that the Company will not, without the prior approval of each of Hutchison and the PT AM Party (which approval may be given by Hutchison, the PT AM Party or a Director nominated by either such Shareholder) take any action or decision in respect of any Reserved Matter. If either Shareholder's interest in Shares falls below 20% of the issued share capital of the Company, the relevant Shareholder's rights under this Clause 10 shall cease to have any effect (without prejudice to any then accrued rights). In accordance with Clause 12.5, the PT AM Parties shall be treated as a single Shareholder for the purposes of Clause 10 and, accordingly, there shall be no separate need to obtain the approval of both PT AM and ATT and their Shareholdings shall be aggregated for the purposes of the threshold Shareholding in this Clause 10.1.

10.2 The Reserved Matters are:

- (a) changing the nature or scope of the business of the Company to include any business outside the Business (including any decision to change or extend the business of the Company or the Company Group Member to any place outside of the Republic of Indonesia), ceasing to carry on any material part of the Business or commencing or participating in any business materially different from the Business;
- (b) adopting or altering the Articles of Association (other than to give effect to any change to the authorised or issued share capital of the Company or the Company Group Member approved or permitted pursuant to Clause 10.2(c));
- (c) changing the authorised or issued share capital of the Company or the Company Group Member, other than to give effect to the then current Business Plan approved by the Board of Directors or as a result of the Funding Shareholder exercising its rights under Clause 11;
- (d) adopting or amending a Business Plan;
- (e) the Company or a Company Group Member declaring or paying any dividend or distribution;
- (f) the Company or a Company Group Member merging or consolidating with any other entity or acquiring or disposing of or establishing any business or entering into a joint venture or alliance except for (i) any such transaction involving an amount not exceeding the Authorised Sum; or (ii) the acquisition of businesses and entering into of joint ventures or alliances in the ordinary course of the business of the Company or a Company Group Member or directly necessary for and implemented in the course of rolling out the Network and anticipated by a Business Plan;
- (g) the Company or any other Company Group Member incurring any amount of capital expenditure or entering into any contract which involves total expenditure by the Company, in either case exceeding the Authorised Sum;

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- (h) any transaction between the Company or any other Company Group Member and a Shareholder or an Affiliate of any Shareholder (including the granting of loans or advances) other than for the supply of goods and services in the ordinary and usual course of business on normal commercial terms no less favourable to Company than such goods or services are supplied to third parties;
 - (i) any proposal to declare bankrupt, liquidate or wind up any Company Group Member or for any Company Group Member to enter into any suspension of payments arrangement or other similar arrangement with its creditors; or
 - (j) any Company Group Member issuing or allotting any shares or other securities for non-cash consideration.

10.3 The matters specified in Clauses 10.2 (c), (d) and (g) shall be referred to as "**Specified Reserved Matters**". Provided that Hutchison holds a minimum of 35% of the issued and outstanding equity share capital of the Company and also has the largest holding of Shares of any Shareholder, then in the event of the parties being unable to agree on any Specified Reserved Matter within ten (10) days of either party proposing an action or decision in respect of the Specified Reserved Matter, the following procedures shall apply:

- (a) A summary of the facts surrounding the relevant Specified Reserved Matter shall be sent by the proposing party to each of the Directors nominated by each of the PT AM Party and Hutchison;
- (b) Within seven (7) days of the receipt of such summary, each of the PT AM Party and Hutchison shall nominate one of its Directors (the "**Concerned Directors**") and such Concerned Directors shall meet and discuss the relevant Specified Reserved Matter and shall take all steps to reach a consensus acceptable to, the PT AM Party and Hutchison;
- (c) If the Concerned Directors are unable to reach a consensus within a period of a further fourteen (14) days, then the matter shall be referred to the Managing Director/General Manager/President Director of each of PT AM and Hutchison who shall meet and discuss the relevant Specified Reserved Matter and shall take all commercially reasonable steps to reach a consensus acceptable to the Shareholders;
- (d) In the event that no consensus is successfully reached by the Managing Director/General Manager/President Director of PT AM and Hutchison within a further fourteen (14) days, then such Specified Reserved Matter shall be put to a meeting of the Board of Commissioners, Board of Directors or of shareholders (as applicable) where a decision by a simple majority shall be sufficient to give effect to the resolution, subject to Clause 10.3(e);

- (e) Where either (i) Hutchison does not hold a simple majority of the Shares or (ii) under the laws of the Republic of Indonesia a shareholders resolution requiring more than a simple majority is required to give effect to any of the Specified Reserved Matters, the PT AM Party agrees that it will use all votes attaching to its Shares to vote in accordance with the wishes of Hutchison in relation to that Specified Reserved Matter and, if requested in writing by Hutchison at least seven (7) days prior to the general meeting of shareholders convened to consider the resolution on the Specified Reserved Matter, shall grant a proxy or power of attorney in favour of a party nominated by Hutchison enabling it to vote the PT AM Parties' Shares at the general meeting of shareholders accordingly.

11. FUNDING AND SHAREHOLDER SUPPORT

11.1 It is the intention that, so far as practicable, funding requirements of the Company Group shall be met by internal cash flow and by third party commercial borrowings and network vendor financing, without recourse to Shareholders and that (without limitation) the business of the Company Group be conducted without the need for Counter Indemnities to be given by Shareholders.

11.2 If the internal cash flow of the Company Group together with third party borrowings are insufficient to meet the funding requirements of Company Group under a Business Plan approved by the Board of Directors (or the day to day expenses of the business of the Company Group if the Board of Directors have not approved a Business Plan and the Company Group is continuing to conduct its business pursuant to Clause 4.5), all Shareholders shall be called upon by the Company to: (a) make Counter Indemnities; and/or (b) advance funds by way of Shareholder Loan; and/or (c) make an equity contribution by subscribing for new shares at a price per Share equal to the par value of the Shares (which price shall not apply in the case of subscriptions for Shares for the purposes of providing Additional Contributions (as defined in Clause 11.4), when the price per Share shall be determined according to clause 11.4 below) (together **Shareholder Funds**) to meet the shortfall, pro rata according to the Equity Proportions of each Shareholder at the time of such call.

11.3 Any call (a **Funding Call Notice**) pursuant to Clause 11.2 shall be made as follows:

- (a) the Funding Call Notice served in respect of each Shareholder:
- (i) specify whether the Shareholder Funds called for are Counter Indemnities, Shareholder Loans or equity contributions or a combination (providing details of the same) of these;
 - (ii) specify the Business Day, at least fourteen (14) days following the date of the Funding Call Notice, on which the Shareholder Funds are to be given or advanced (the **Funding Date**);
 - (iii) specify the terms and conditions on which the Counter Indemnity is to be given or advances or equity contributions are to be made (but so that all relevant Shareholders shall be called upon to provide Counter Indemnities and make advances or equity contributions on the same terms and conditions which, in the case of Counter Indemnities, shall include the right of the Shareholders providing the Counter Indemnity to be paid commercial arms' length fees by the Company); and

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- (iv) attach an explanation from the Chief Financial Officer of the Company specifying the purpose of the call and the need for the advances and/or Counter Indemnities.

11.4 Each Shareholder undertakes to the other Shareholders and the Company to satisfy (either itself or by an Affiliate of that Shareholder) Funding Call Notices issued after the date of this Agreement according to their respective Equity Proportions at the time of the relevant Funding Call Notice, for a maximum aggregate amount of Shareholder Funds of US\$300,000,000 (or equivalent in any other currency at the exchange rate for that currency at the time of the relevant Funding Call Notice) (the **Shareholder Fund Limit**), subject to the following:

11.4.1 the Company may issue one or more Funding Call Notices to call for Shareholder Funds for a total aggregate amount of up to US\$200,000,000 (or Rupiah equivalent at the Reference Exchange Rate) of the Shareholder Funding Limit which Funding Call Notice(s) may be issued at any time after the Date of this Agreement and specify a Funding Date which is any date after the date of this Agreement provided such Funding Date is determined in accordance with Clause 11.3(a)(ii); and

11.4.2 the Company may issue one or more Funding Call Notices to call for Shareholder Funds for the balance of the Shareholder Fund Limit, being a total aggregate amount of US\$100,000,000 (or Rupiah equivalent at the Reference Exchange Rate), which Funding Call Notice(s) may be issued at any time after the date of this Agreement but provided always that the Funding Date specified in the relevant Funding Call Notice must be a date after the second anniversary of the date of this Agreement and provided further that such Funding Date is determined in accordance with Clause 11.3(a)(ii).

11.5 Without prejudice to each Shareholder's obligation under Clause 11.4, if a Shareholder (or its Affiliate) does not fully comply with a Shareholder Funding Notice in respect of any Funding Call Notice not falling under Clause 11.4, such Shareholder shall not by reason thereof be treated as being in default of this Agreement in respect of any amount of funds called for under the Funding Call Notice which exceeds that Shareholder's Equity Proportion of the Shareholder Fund Limit, and:

11.5.1 if a Shareholder does not fully comply with the Funding Call Notice on or before the Funding Date, the Company shall at any time within seven (7) days of the Funding Date invite, in writing, the other Shareholders who have provided their Equity Proportion of the funds specified in the Funding Call Notice (**Funding Shareholder**) to fund the resultant funding shortfall within fourteen (14) days of the invitation by making an additional contribution of its Relevant Proportion of such shortfall (**Additional Contributions**). For this purpose, the **Relevant Proportion** shall be calculated by reference to the Equity Proportion of such Funding Shareholder as compared with the aggregate Equity Proportions of all Funding Shareholders. To the extent that, following these Additional Contributions, there remains a shortfall in the funds specified in the Funding Call Notice, the Company shall continue to invite each of the Funding Shareholders who have at that time satisfied all such funding requirements, to make an Additional Contribution of their Relevant Proportion of the remaining shortfall and, for this purpose the **Relevant Proportion** shall be calculated by reference to the Equity Proportion as at the date of the relevant Funding Call Notice of each such Funding Shareholder as compared with the aggregate Equity Proportions as at the date of the relevant Funding Call Notice of all such Funding Shareholders, and so on, until no funding shortfall remains. Any such Additional Contribution may be made by the Funding Shareholder(s) by way of Shareholder Loan (on terms which shall include the obligation for the Company to pay to the lender simple interest on the principal amount outstanding from time to time at a commercial arms' length rate) or by way of equity by subscribing for new Shares, at the Funding Shareholder's nomination in its sole discretion provided that:

- (a) if an Additional Contribution is provided by way of Shareholder Loan, such Shareholder Loan may not be converted into Shares without the prior written consent of the Shareholders who are Non-Funding Shareholders in respect of relevant Funding Call Notice; and
- (b) if a Funding Shareholder wishes to dilute the Non-Funding Shareholder(s) (which right is acknowledged by the Parties), the relevant Additional Contribution must be provided by way of equity by the Funding Shareholder (or its Affiliate) subscribing for new Shares, and the issue price payable by the Funding Shareholder (or its Affiliate) for such Shares shall be the Dilution Price (as defined in Clause 11.7 below), and the number of Shares to be subscribed or issued shall be such number as have an aggregate value (based on the price per Share determined in accordance with this Clause 11.5.1) equal, as far as possible, to the amount of the relevant Additional Contributions of the Funding Shareholder. Notwithstanding the foregoing, if the Dilution Price is less than the par value per Share, then the issue price per Share payable by the Funding Shareholder (or its Affiliate) shall be the par value of a Share at that time. A Funding Shareholder shall, within twenty-one (21) days of receipt of invitation to make an Additional Contribution, give written notice (the "**Dilution Notice**") to the Company (with a copy to the Non-Funding Shareholder(s)) of its wish to make the Additional Contribution by way of equity by subscribing for the relevant number of new Shares (the "**Dilution Shares**");

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- (c) the Funding Shareholder and the Non-Funding Shareholder shall ensure that, at any time not later than thirty (30) days after delivery of the Dilution Notice (being the *Registration Period*), subject to obtaining any approvals of Governmental Agencies required to subscribe for the Dilution Shares, the Funding Shareholder shall become the registered holder of the Dilution Shares;
 - (d) the Shareholders shall vote to pass all resolutions required and the Shareholders and the Company shall do all other things necessary to procure that the issue of the Dilution Shares is promptly approved by all relevant Governmental Agencies if required pursuant to applicable laws and regulations and is immediately duly registered in the Register of Shareholders of Company;
 - (e) once an issue of Dilution Shares has taken place pursuant to this Clause 11.5, the validity of the proceedings, including in relation to any prevailing Indonesian regulations having the force of law, shall not be questioned by any Party or the Company or other person in any respect whatsoever; and
 - (f) the Funding Shareholder shall, if permitted under Clause 12.6, be entitled to nominate a third party to whom the Dilution Shares shall be issued following which paragraphs (c) to (e) of this Clause 11.5.1 shall apply mutatis mutandis in respect of the issue of the Dilution Shares to that person, save that the thirty (30) day period referred to in paragraph (i) shall be thirty (30) days from date such person is nominated by the Funding Shareholder.

11.6 Each Non-Funding Shareholder hereby **APPOINTS** the Funding Shareholder from time to time who becomes entitled (pursuant to Clause 11.5) to subscribe for Dilution Shares, (the *Entitlement*) to be its attorney for the duration of the relevant Registration Period, for so long as such Funding Shareholder is so entitled, for the purpose of exercising all and any of the voting and other rights and powers (including, without limitation, the power to vote at any meeting required to approve issue of such Dilution Shares, the power to waive any pre-emptive right to subscribe for its pro rata share of such Dilution Shares including the power to execute such documents as are required to give effect to such waiver) attached or accruing to such Dilution Shares (each an *Attorney*) and further **DECLARES** that the Dilution Shares are held on trust for and for the benefit of each Attorney for so long as such Attorney has such Entitlement. This power of attorney is given by way of security to secure the proprietary interest of each Attorney and the above declaration of trust. For so long as the relevant Attorney has that proprietary interest, this power of attorney and declaration of trust shall not be revoked by the relevant Non-Funding Shareholder without the prior written consent of such Attorney.

11.7 In this Clause 11:

11.7.1 **Dilution Price** means the price per Share based on the Enterprise Value discounted by 10% divided by the total number of Shares (including the Dilution Shares to be issued).

11.7.2 **Enterprise Value** means the open market value of the entire issued share capital of the Company between a willing third party buyer and a willing seller assuming that the Additional Contributions have been advanced to the Company and immediately following such amounts being advanced as determined by an Expert (as defined in Part I of Schedule 1) in accordance with paragraph 2 of Part I of Schedule 1 and for which purposes the Parties shall comply with paragraph 4(b) of Part I of Schedule 1.

11.8 Repayment of Shareholder Loans

11.8.1 Subject to clause 11.8.2 below, Shareholder Loans (other than any Shareholder Loans for Additional Contributions, which shall be repaid first) shall only be repaid pro rata to the principal amounts outstanding at the time of repayment.

11.8.2 The parties agree that, upon the transfer of any Shares by Hutchison or the PT AM Party to any other person, the relevant transferee may, as a condition of the transfer, be required by the transferring Shareholder to pay to the Company (such payment being a Shareholder Loan) an amount equal to the appropriate proportion of the outstanding Shareholder Loans (excluding Additional Contributions, if any) of such transferring Shareholder, in which case the Parties shall procure that such amount is immediately used by the Company to repay such appropriate proportion of such Shareholder Loans to the relevant Shareholder provided that Company is not adversely affected or does not incur unreasonable costs in doing so. For this purpose, the appropriate proportion is calculated by reference to the number of Shares being transferred as compared with the total number of Shares held (immediately prior to such transfer) by such transferring Shareholder.

12. TRANSFER OF SHARES

12.1 Transfers By PT AM

If:

- (a) the PT AM Party proposes to transfer or otherwise dispose of any Shares, subject to Clause 12.7, the PT AM Party shall first give notice to Hutchison and, Hutchison shall be entitled to the pre-emptive rights set out in Part II of Schedule 1; and

- (b) any transaction or event is proposed or has occurred which will or has resulted in a Change of Control, PT AM shall promptly give notice to Hutchison thereof and upon such Change of Control (whether or not PT AM gave notice to Hutchison under this Clause) Hutchison shall have an option to require each of PT AM and ATT to sell all of its Shares to Hutchison (the **Control Call Option**) in accordance with the provisions of Part V of Schedule 1.

12.2 Transfer By Hutchison and Right of First Offer

Subject to Clause 12.4, if Hutchison wishes to transfer or otherwise dispose of any or all of its Shares to any third party (any such party being referred to as a **Third Party Transferee**):

12.2.1 Hutchison shall give notice (an **Intention to Sell Notice**) to the PT AM Party of its intention to sell any or all of its Shares. The Intention to Sell Notice shall state the number of Shares Hutchison wishes to sell, and may but is not required to provide any further details in respect of a sale of the Shares. The PT AM Party may within twenty-one (21) days of delivery of the Intention to Sell Notice make a written offer to acquire all or some of such Shares provided that Hutchison shall not be obliged to accept any such offer whether or not made at a higher or lower price than any price offered to Hutchison by a Third Party Transferee (if any) and that, following expiry of such twenty-one (21) day period Hutchison shall be entitled to enter into an agreement for the sale and purchase of up to all of the number of its Shares specified in its Intention to Sell Notice at any price and on any terms in the six (6) months following delivery of the relevant Intention to Sell Notice. During such six (6) month period Hutchison shall not be required to give any further or additional Intention to Sell Notice in respect of a sale of up to the number of Shares specified in the relevant Intention to Sell Notice;

12.2.2 and, Hutchison shall procure that any third party purchaser to whom Hutchison proposes transferring any Shares offers to each of PT AM and ATT to purchase a Relevant Proportion of PT AM's and ATT's Shares in accordance with the provisions of Part III of Schedule 1, and the procedures set out in Part III of Schedule 1 shall apply to such offer. For the purposes of this Clause 12.2.2, "**Relevant Proportion**" means such number of PT AM's and ATT's Shares as represents, expressed as a proportion of all Shares held by PT AM and ATT, respectively, the same proportion of Shares which are proposed for sale to such third party purchaser.

12.3 No Encumbrances

Except as expressly provided in this Agreement, no Shareholder shall directly or indirectly sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or otherwise create any encumbrance on any Shares or any of its rights or obligations under this Agreement without complying with all the provisions of this Agreement and the PT AM Party warrants and represents that the Shares held by it at the date hereof are free from any Encumbrance.

12.4 Permitted Transfers

The restrictions in this Clause 12 with respect to the transfer of any Shares shall not apply to any transfer of Shares by a Shareholder to its Affiliates or to the other Shareholder or any of its Affiliates of such Shareholder, provided, however, that if a Shareholder transfers less than all of such Shareholder's Shares to one or more of its Affiliates, such Shareholder shall continue to be bound by the terms of this Agreement and shall retain the right to continue to nominate the number of Directors and Commissioners as specified in Clause 7 hereof, the transferee shall have no right to nominate any Directors or Commissioners, and the restrictions in this Clause 12 will continue to be applicable to the Shares (or any interest therein) after any transfer to such Affiliates. Each such Affiliate of a Shareholder shall, as a condition to the effectiveness of any transfer of Shares, deliver to the other Party (i) such Affiliate's accession agreement, in form and substance reasonably satisfactory to the other Party, agreeing to be bound by the provisions of this Agreement upon consummation of the transfer as required under Clause 29; and (ii) any other information reasonably requested by the other Party. In the event that any Shareholder (or any of its Affiliate) makes a transfer of any Shares (or any interest therein) to its Affiliate, such Shares (or such interest therein) shall be repurchased by such transferor from such Affiliate prior to the occurrence of any event as a result of which such Affiliate ceases to be an Affiliate of such transferor.

12.5 PT AM Party and ATT Shares

Unless otherwise specified, all rights (including rights to nominate members of the Board of Directors and Board of Commissioners) of the PT AM Party under this Agreement shall be construed as if the PT AM Party was a single person (and references to "a Shareholder" shall be construed accordingly), it being an internal matter for PT AM and ATT as to how the rights and obligations of the PT AM Party under this Agreement are to be fulfilled and exercised as between PT AM and ATT. PT AM and ATT shall be jointly and severally liable in respect of the obligations of the PT AM Party (including under provisions applying to Shareholders). An Event of Default under Clause 18.1 in relation to either PT AM or ATT, shall be an Event of Default in relation to the PT AM Party.

12.6 Nominated Transferee

Where the exercise by a Shareholder (*Exercising Shareholder*) of any rights under Clauses 11.4, 11.5, 12.1 or 18 of this Agreement may result in a transfer or issue of Shares to the Exercising Shareholder, the Exercising Shareholder shall be entitled, if it is not permitted by law or the terms of any Governmental Approval to acquire or subscribe for such Shares, or because a Governmental Approval required for such transfer or issue has, or cannot, be obtained, to nominate a third party who is an Indonesian person to whom such Shares are to be transferred or issued and the other Shareholders shall make such transfer or the Company shall issue such Shares (as appropriate) accordingly.

- 12.7 Either (i) upon the occurrence of an Hutchison Change of Control, or (ii) if Shares (or other securities representing Shares) are not listed on an internationally recognised stock exchange on or before the fifth anniversary of the date of signing this Agreement (a *Five Year Event*), then Hutchison's pre-emptive rights under clause 12.1(a) shall terminate and PT AM and ATT may transfer or otherwise dispose of any Shares without first giving notice to Hutchison, provided that, if such pre-emption rights are to terminate because of the occurrence of a Five Year Event (but not otherwise):
- (a) Hutchison's pre-emption rights under Clause 12.1(a) shall not terminate, and shall continue in effect in accordance with Clause 12.1(a), if the Third Party Transferee (as defined in Schedule 1, Part II, clause 1) is an Indonesian person or is an entity which an Indonesian person, directly or indirectly, holds 35% of more of the voting rights, but excluding any Indonesian person that is a financial institution owned or controlled by the Government of the Republic of Indonesia;
 - (b) PT AM and ATT each undertake to Hutchison that it shall not (and shall procure that its relevant Affiliates do not) sell, dispose of, transfer or assign any of its direct or indirect interest in any Shares or enter into any agreement to do the same, to a Telecoms Competitor.

12.8 For the purposes of Clause 12.7:

Hutchison Change of Control means any transaction or event whereby:

- (a) Hutchison Telecommunications International Limited ceases to hold, directly or indirectly, at least 35% of the Shares and the aggregate number of Shares so held by Hutchison Telecommunications International Limited ceases to be greater than the aggregate number of Shares held, directly or indirectly, by any other single entity; or
- (b) Hutchison Whampoa Limited ceases to hold, directly or indirectly, in aggregate, at least 20% of the issued shares in Hutchison Telecommunications International Limited and the aggregate number of issued shares in Hutchison Telecommunications International Limited so held ceases to be greater than the aggregate number of issued shares in Hutchison Telecommunications International Limited held, directly or indirectly, by any other single entity;

Telecoms Competitor means any person (or any entity which such person holds, directly or indirectly, at least 35% of the voting rights) which (i) owns or operates mobile or fixed line telecommunications networks or infrastructure or provides mobile, fixed line telecommunications, IDD or internet services, or (ii) who is a mobile virtual networks operator in the Republic of Indonesia of such services, or (iii) who is a re-seller in the Republic of Indonesia of such services.

13. IPO

- 13.1 The Shareholders acknowledge that it is their intention to list the Shares (or other securities representing Shares) on an internationally recognised securities exchange when the Business of the Company has reached the appropriate stage of development and the prevailing market conditions are both favourable and allow for such listing.
- 13.2 At the time contemplated under Clause 13.1, the Shareholders agree to co-operate in good faith with each other in:
- (a) assessing whether and when it would be in the best interests of Company to initiate a listing; and
 - (b) determining the stock exchange on which an application for listing shall be made and the manner in which an offering will be made.
- 13.3 If, on the fifth anniversary of the date of this Agreement, no listing of the share capital of the Company as contemplated in this Clause 13 has been initiated, the PT AM Party shall consult with Hutchison with regard to its intentions and subsequently, at the written request of PT AM, Hutchison shall work with and shall use all reasonable endeavours to assist the PT AM Party to achieve a sale of its Shares provided that if the PT AM Party is to transfer its Shares, such transfer shall be subject to the provisions of Clause 12.7.

14. BOOKS, RECORDS AND REPORTS

14.1 Company to maintain records and accounts

The Company shall maintain, at its principal office:

- 14.1.1 accurate and adequate accounting books and records maintained, subject to obtaining the necessary Government Approvals, in Dollars and Rupiah in English and Bahasa Indonesia in accordance with generally accepted Indonesian accounting principles and practices which shall accurately reflect the Company's financial position in accordance with established financial practices of recognized international accounting standards;
- 14.1.2 such other accounting or other records as may be required by the laws of Indonesia;
- 14.1.3 all original agreements, records, and reports relating to its activities and operations.

All assets, liabilities and transactions of or involving the Company shall be recorded properly in its accounts and records and shall be fully disclosed to the Auditor.

14.2 Foreign Shareholder reporting requirements

In addition to the records required to be maintained in accordance with Clause 14.1, the Company shall also provide to each of the Foreign Shareholders records and financial information in the form necessary to comply with the Foreign Shareholders' reporting requirements.

14.3 **Annual Audit of Company**

Within 60 (sixty) days after the end of each financial year, the Auditor shall audit the books and records of the Company.

The auditors of each Party shall also have the right to review the books and accounts of the Company on an annual basis at the expense of the relevant Party.

The audited accounts and Board of Directors' report shall be submitted in English and Bahasa Indonesia for approval at the Annual General Meeting of Shareholders in respect of the relevant financial year to be held in accordance with the Articles of Association and upon such approval being granted, the audited accounts and Board of Directors' report shall be final and binding upon the Parties as to the matters set out or reflected therein, in the absence of manifest error or fraud.

15. REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to each other Party that:

15.1.1 it has full power to enter into this Agreement and to perform its obligations hereunder according to the terms of this Agreement, and that it has taken all necessary corporate or other actions (if applicable) to authorize its entering into and performance of this Agreement; and

15.1.2 it is duly authorized and licensed by all relevant Governmental Agencies to enter and to perform this Agreement and that it has made and will make all required reports and disclosures to any applicable Governmental Agency with respect to this Agreement or any activity undertaken in connection with this Agreement.

16. REGULATORY MATTERS AND BRANDING

16.1 The Parties shall co-operate with each other to ensure that all information necessary or desirable for making (or responding to any requests for further information following) any notification or filing made in respect of this Agreement, or the transactions contemplated by it, is supplied to the party dealing with such notification and filing and that they are properly, accurately and promptly made.

16.2 If any material Regulatory Action is taken or threatened in respect of this Agreement or the transactions contemplated by it, the parties shall promptly meet to discuss:

(a) the situation and the action to be taken as a result; and

-
- (b) whether any modification to the terms of this Agreement (or any agreement entered into pursuant to this Agreement) should be made in order that any requirement (whether as a condition of giving any approval, exemption, clearance or consent or otherwise) of any regulatory authority may be reconciled with, and within the intended scope of, the business arrangement contemplated by this Agreement. The parties shall co-operate to give effect to any agreed modifications.

16.3 Each Shareholder shall:

- (a) cooperate together and with Company (and shall procure that such Shareholder's Affiliates shall do so) so as to ensure compliance with the requirements of the CO Licence and all other Governmental approvals and applicable laws and regulations which relate to the Company or Shareholder including disclosing information and notifying relevant Governmental Agencies;
- (b) not take or omit to take any action which would constitute a breach of or would be detrimental to the CO Licence or other Governmental Agencies or which would constitute a breach of applicable laws and regulations.

16.4 The Parties agree and covenant that during the term of this Agreement each Party shall use its best endeavours expeditiously to obtain and maintain all Governmental Approvals required under applicable laws, regulations and policies and its articles of association or other constituent documents for maintaining its shareholding in Company and the continued existence and operations of Company.

16.5 The Parties shall use all reasonable endeavours to procure that the affairs of Company shall be conducted in accordance with sound and good business practice and the highest ethical standards generally, as well as in accordance with all applicable laws and regulations and best practices.

16.6 The products and services of the Company shall be branded under and the Business shall be carried on under a brand to be determined by Hutchison which brand may be owned and used by Hutchison's Shareholder Group. Where the brand is so owned, arrangements may be entered into with relevant members of Hutchison's Shareholder Group under which the Company shall be entitled to make use of such brand and all intellectual property comprised therein or related thereto provided that all rights in such brand and such intellectual property shall continue to be owned by the relevant member of Hutchison's Shareholder Group and no such rights shall be transferred to or acquired by the Company and that the rights of the Company to make use of such brand and such intellectual property shall be terminable on notice at the option of the relevant member of Hutchison's Shareholder Group.

17. CONFIDENTIALITY AND ANNOUNCEMENTS

17.1 Each Party shall use (and shall ensure that each of its subsidiaries shall use) all reasonable endeavours to keep confidential (and to ensure its officers, employees and agents shall keep confidential) any information which relates to the contents of this Agreement (or any agreement or arrangement entered into pursuant to this Agreement) or any information relating to the business or affairs of the Company (the **Confidential Information**) and shall not use or disclose such information except with the consent of the other party.

17.2 The obligation of confidentiality under Clause 17.1 does not apply to:

- (a) the disclosure (subject to Clause 17.3) on a “need to know” basis to a subsidiary of a party where the disclosure is for a purpose reasonably incidental to this Agreement;
- (b) the disclosure of information to the extent required to be disclosed by law, any stock exchange regulation or any binding judgment, order or requirement of any court or other Governmental Agency;
- (c) the disclosure (subject to Clause 17.3) in confidence to a Party’s professional advisers of information reasonably required to be disclosed for any purpose reasonably incidental to this Agreement;
- (d) information which is publicly available or becomes publicly available (otherwise than as a result of a breach of this Clause 17); or
- (e) such disclosure as is reasonably necessary in connection with the transfer of any shares, provided that the recipient of such information is subject to a duty of confidentiality in respect of such information equivalent to that included in this Clause 17.

17.3 Each Party shall inform (and shall ensure that any subsidiary shall inform) any officer, employee or agent or any professional or other adviser advising it in relation to the matters referred to in this Agreement, or to whom it provides Confidential Information, that such information is confidential and shall instruct them:

- (a) to keep it confidential; and
- (b) not to disclose it to any third party (other than those persons to whom it has already been disclosed in accordance with the terms of this Agreement).

The disclosing Party is responsible for any breach of this Clause 17 by the person to whom it is disclosed.

17.4 No formal public announcement or press release in connection with the signature or subject matter of this Agreement shall (subject to Clause 17.5) be made or issued by or on behalf of either Party or any of its subsidiaries without the prior written approval of the other Party (such approval not to be unreasonably withheld or delayed).

17.5 If a Party has an obligation to make or issue any announcement required by law or by any stock exchange or by any governmental authority, the relevant Party shall give the other Party every reasonable opportunity to comment on any announcement or release before it is made or issued (provided that this shall not have the effect of preventing the party making the announcement or release from complying with its legal and/or stock exchange obligations.)

18. DEFAULT

18.1 Each of Hutchison and the PT AM Party agree that the provisions of Clause 18 shall apply on the occurrence of an Event of Default.

An Event of Default means in relation to a party, the occurrence of any of the following:

- (a) any material breach by a Party of any of its obligations under this Agreement; or
- (b) a court of competent jurisdiction makes an order or a resolution is passed, for the dissolution or administration of that Party (otherwise than in the course of a reorganisation or restructuring previously approved in writing by the other Party, such approval not to be unreasonably withheld or delayed); or
- (c) any person takes any step (and it is not withdrawn or discharged within sixty (60) days) to appoint a liquidator, manager, receiver, administrator, administrative receiver or other similar officer in respect of any assets held by that Party; or
- (d) that Party convenes a meeting of its creditors or makes or proposes any arrangement or composition with, or any assignment for the benefit of, its creditors (including arrangement for suspension of payments),

but if any breach referred to in Clause 18.1(a) is capable of remedy, an Event of Default shall occur only if the breach has not been remedied within thirty (30) days following written notice of such breach from the other Party (unless capable of being remedied within a shorter period in which case if it has not been remedied by the expiry of such shorter period) and if the other Party has after such thirty (30) days (or shorter period) given not less than seven (7) days' further notice of its intention to exercise its rights under Clause 18.2; or

18.2 If a Party commits or is the subject of an Event of Default, without prejudice to any other remedy available at law, the other Party shall have an option to require the defaulting Party to sell to all of its Shares to the non-defaulting Party (the *Default Call Option*) in accordance with the provisions of Part IV of Schedule 1.

19. TERM OF AGREEMENT AND TERMINATION

19.1 This Agreement shall take effect upon the date it is entered into.

19.2 This Agreement shall cease to be binding upon a Party (except in relation to any antecedent breaches) at such time as such Party ceases to have any direct or indirect interest in any Shares.

19.3 Termination of this Agreement shall be without prejudice to the accrued rights and liabilities of the Parties at the date of termination.

19.4 In the event that the Hutchison ceases to have the largest holding of Shares of any Shareholder:

- (a) this Agreement (except in relation to Clauses 6 and 17 to 29 (inclusive) shall terminate; and
- (b) the Parties shall meet and discuss and seek to agree, in good faith (but without any obligation to agree), the terms of a new agreement to regulate the rights and obligations of the Shareholders in respect of each other and the Company.

20. NOTICES

20.1 Any notice or other formal communication to be given under this Agreement shall be in writing and signed by or on behalf of the party giving it. It shall be:

- (a) sent by fax to the number set out in Clause 20.2; or
- (b) delivered by hand or sent by prepaid recorded delivery or registered post to the relevant address in Clause 20.2.

In each case it shall be marked for the attention of the relevant party set out in Clause 20.2 (or as otherwise notified from time to time under this Agreement). Any notice given by hand delivery, fax or post shall be deemed to have been duly given:

- (a) if hand delivered, when delivered;
- (b) if sent by fax, twelve (12) hours after the time of transmission to the correct fax number, provided that the sending party shall have obtained electronic or other confirmation of accurate and complete transmission;
- (c) if sent by recorded delivery or registered post, (a) on the second Business Day from the date of posting, if sent to a Party in the same country; or (b) on the tenth Business Day from the date of posting if sent to a Party in a different country,

unless there is evidence that it was received earlier than this and provided that, where (in the case of delivery by hand or by fax) the delivery or transmission occurs after 6 pm on a Business Day or on a day which is not a Business Day, service shall be deemed to occur at 9 am on the next following Business Day. References to time in this Clause are to local time at the address of the addressee.

20.2 The addresses and fax numbers of the parties for the purpose of Clause 20.1 are:

(a) **CAC Holdings (Netherlands) B.V.:**

Address: De Boelelaan 7 Official, 1083 HJ, Amsterdam, the Netherlands

Fax No: +31 20 642 7675

For the attention of: Legal Department

with a copy to Hutchison Telecommunications International Limited, at 18/F, Two Harbourfront, 22 Tak Fung Street, Hunghom, Kowloon, Hong Kong, Fax: +852 2827 1371, Attention Legal Department

(b) **PT AM:**

Address: Jl. Ancol No. 1, Ancol Barat, Jakarta 14430

Fax No: +62 21 690 7324

For the attention of: Sidarta Sidik

and a notice given to PT AM shall be deemed to have been given to ATT also.

(c) **The Company:**

Address: Wisma Barito Pacific, 2nd Floor, Tower B, Jl. Letjend S Parman Kav 62-63, Slipi, Jakarta 11410, Indonesia

Fax No: +62 21 5366 0000

For the attention of: President Director,

And a notice given to the company shall also be copied to:

Hutchison Telecommunications International Limited, at 18/F, Hutchison Telecom Tower, 99 Cheung Fai Road, Tsing Yi, New Territories, Hong Kong, Fax:+852 2128 3112

For the attention of: Legal Department

20.3 All notices or formal communications under or in connection with this Agreement shall be in the English language or, if in any other language, accompanied by a translation into English. In the event of any conflict between the English text and the text in any other language, the English text shall prevail.

21. ENTIRE AGREEMENT, AMENDMENT AND SEVERABILITY

21.1 This Agreement may be amended only by another agreement in writing executed by all Parties who may be affected by the amendment.

21.2 This Agreement contains the entire agreement of the parties with respect to its subject matter. It constitutes the only conduct relied on by the Parties (and supersedes all earlier agreements, understanding and other conduct by the Parties) with respect to its subject matter.

21.3 If any one or more of the provisions contained in this Agreement or any document executed in connection herewith shall be invalid, illegal, or unenforceable in any respect under applicable law, the validity, legality and enforceability of the remaining provision contained herein shall not in any way be affected or impaired; provided that in such case the Parties shall use their best efforts to achieve the purpose of the invalid provision by a new legally valid provision or provisions.

22. NON-ASSIGNMENT

22.1 Except as permitted in accordance with the provisions of this Clause 22, neither no Party may, nor may purport to, assign any of its rights or obligations under this Agreement in whole or in part, nor grant, declare, create or dispose of any right or interest in it (otherwise than in accordance with the terms of this Agreement).

22.2 Each Shareholder shall be permitted to assign or transfer any of its rights or obligations under this Agreement to any undertaking which is, on or at any time after the date of this Agreement, a wholly owned subsidiary or holding company of the relevant party or a wholly owned subsidiary of a holding company of the party. If any such assignee shall (whilst it retains any rights under this Agreement) at any time cease to be a wholly owned subsidiary or holding company of the relevant party, or a wholly owned subsidiary of a holding company of that party, the person entitled to any such rights under this Agreement shall ensure that prior to it so ceasing the rights under this Agreement to which it is entitled are assigned to a wholly owned subsidiary or holding company of the relevant party or a wholly owned subsidiary of a holding company of the relevant party, failing which such rights which have not been so assigned shall cease to be enforceable (except in respect of any rights of action arising before the rights cease to be enforceable to the extent that such rights are and continue to be held by or to enure to the benefit of a wholly owned subsidiary or holding company of the relevant party or a wholly owned subsidiary of a holding company of the relevant party).

23. NO WAIVER

No failure to exercise and no delay in exercising any right, power or remedy under this Agreement will operate as a waiver. Nor will any single or partial exercise of any right, power or remedy preclude any other or further exercise of that or any other right, power or remedy.

24. COSTS

Each Party shall bear its own legal and accountancy costs, charges and expenses (including taxation) arising out of the negotiation, preparation and implementation of this Agreement and the transactions contemplated by it.

25. GOVERNING LANGUAGE

This Agreement has been negotiated and agreed in the English language which shall be the governing and determining language of and in respect of this Agreement for all purposes, notwithstanding that it is translated into any other language for any reason or purpose whatsoever.

26. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the parties to it on separate counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

27. GOVERNING LAW

This Agreement shall be governed by and interpreted in accordance with the laws of Singapore.

28. RESOLUTION OF DISPUTES

- 28.1 Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration in Singapore in accordance with Arbitration Rules of the Singapore International Arbitration Centre (the *SIAC Rules*) for the time being in force which rules are deemed to be included by reference to this Clause.
- 28.2 All communications in the course of and during the arbitration process and proceedings shall be in the English language. The acceptance by any arbitrator of his or her appointment under this Clause 28 shall be deemed to include and convey the consent and agreement of such arbitrator that the English language will be used in the arbitration process and proceedings.
- 28.3 The arbitrator or the board of arbitration as the case may be, shall render its award applying strict rules of law and principles consistent with the explicit terms of this Agreement and shall have the authority to include in such award a decision binding upon the Parties, enjoining them to take or refrain from taking specific action with respect to the matter in dispute or disagreement.
- 28.4 The award of the arbitrator or the board of arbitration shall be final and binding on the Parties and may be enforced in the courts of any country which is a party to the New York Convention Regarding Recognition and Enforcement of Foreign Arbitration Awards. The Parties hereby irrevocably and unconditionally exclude any right of application or appeal to any court in the course of any arbitration of in respect of any award made. The costs of any arbitration shall be borne in accordance with the determination of the arbitrator or the board of arbitration.
- 28.5 The mandate of the arbitrator or board of arbitrators duly constituted in accordance with the terms of this Agreement shall remain in effect until a final arbitration award has been issued by the arbitrator or board of arbitration. For such purpose, the Parties hereby agree that the term of the mandate of the arbitrator or board of arbitrators shall be extended for as long as necessary for the issuance of a final arbitration award as required by this clause 28.

28.6 An order of judicial acceptance or an application for enforcement of the arbitration award may be sought in any court of competent jurisdiction. Without limiting the foregoing sentence, for the purposes of enforcing any arbitration award in Indonesia only, each of the Parties hereby irrevocably elects domicile at the Clerk's Office of the District Court of Central Jakarta (*Kantor Panitera Pengadilan Negeri Jakarta Pusat*).

29. ACCESSION

Each Shareholder undertakes to procure that any person to whom the Shareholder transfers any Shares directly accedes to this Agreement with effect from the date on which such person so that such acceding Party, is directly subject to and is bound to comply with all of the duties and obligations under this Agreement as if such person were the transferring Shareholder in respect of the Shares transferred directly to such person. The Parties each agree to enter into promptly any applicable accession agreement required to be entered into by a transferee.

EXECUTED on the date first stated above.

SIGNED for and on behalf of

PT ASIA MOBILE

)

)

in the presence of:

)

Signature

Print name

SIGNED for and on behalf of

**ASIA TELECOMMUNICATIONS
TECHNOLOGY LTD**

)

)

in the presence of:

)

Signature

Print name

SIGNED for and on behalf of
CAC HOLDINGS (NETHERLANDS)

B.V.
in the presence of:

)
)
)

Signature

Print name

SIGNED for and on behalf of
PT CYBER ACCESS
COMMUNICATIONS

in the presence of:

)
)
)

Signature

Print name

SCHEDULE 1

Transfer of Shares

**Part I
General Provisions**

1. In this Schedule:

Expert means such internationally recognised investment bank as Hutchison and PT AM may agree or failing agreement within fourteen (14) days of the date of the relevant notice requiring appointment of an Expert, such internationally recognised investment bank, independent of all interested parties, as the Chairman for the time being of the Singapore International Arbitration Centre appoints at the request of either Hutchison or PT AM; and

Fair Price means the open market value of the relevant Shares between a willing third party buyer and a willing seller without any premium or discount by reference to the percentage of the Shares being sold or transferred or the resulting holdings of Shares.

2. Where an Expert is appointed, it shall be requested to reach its decision as soon as possible and in any event within thirty (30) days of appointment and shall act as expert and not as an arbitrator and its decision, which shall be incorporated into a certificate to be delivered to Hutchison and PT AM, shall be final and binding on the Parties. The Parties shall bear the Expert's fees and expenses equally, except in the case where the Expert is appointed to determine the Fair Price for the purposes of Part IV of Schedule 1, in which case the Shareholder who has committed the Event of Default shall bear such fees and expenses.

3. If the date for completion of any transfer of shares is not a Business Day, completion shall take place on the Business Day immediately following such date.

4. Each Party will cooperate in procuring the provision:

(a) to the other of all information reasonably required by the parties in deciding to exercise any rights arising under this Agreement and the provisions of the Schedules to this Agreement; and

(b) to the Expert of all information reasonably required by the Expert in determining the Fair Price.

Part II

1. Any notice (a *Transfer Notice*) given by the PT AM Party (the *Seller*) to Hutchison (*Continuing Party*) of any proposed transfer of shares pursuant to Clause 12.1 shall specify details of the shares to be transferred (the *Seller's Shares*), any proposed third party purchaser (a *Third Party Transferee*), the purchase price (the *Transfer Price*) and other material terms on which the Seller proposes to sell the Seller's Shares. A Transfer Notice is irrevocable.
2. On receipt of the Transfer Notice, the Continuing Party shall have the right to buy all (but not some only) of the Seller's Shares at the price specified in the Transfer Notice (or at such other price as the Seller and the Continuing Party agree) by giving notice to the Seller within thirty (30) days of receiving the Transfer Notice (the *Acceptance Period*).
3. If the Continuing Party exercises its rights under paragraph 2, subject only to any Governmental Approvals or approval of shareholders of the Continuing Party or the Seller (*Approvals*), the Continuing Party shall be bound to buy the Seller's Shares at the Transfer Price and otherwise on the terms set out in the Transfer Notice. Completion of the sale and purchase of the Seller's Shares shall take place within thirty (30) days of the day on which notice is given to the Seller pursuant to paragraph 2 as may be specified by the Continuing Party or, if any Approval has not been obtained by the end of that period, within five (5) days Business Days of the date on which the last Approval to be obtained is obtained. Each of the Seller and the Continuing Party shall use its reasonable endeavours to obtain or provide all reasonable assistance to obtain the Approvals.
4. Upon completion of any sale under paragraph 3, the Continuing Party shall assume, with effect from the completion date, any relevant obligations of the Seller under (and shall ensure the release or repayment of) any Counter Indemnities or any other guarantees, indemnities, loans, letters of comfort and/or counter-indemnities to third parties in relation to the funding of the Company and receives the right to receive payment of all interest and repayment of all amounts of principal and all other rights under all loans made to the Company by the Seller.
5. If the Continuing Party does not exercise its rights to buy under paragraph 2, the Seller may transfer all (but not some only) of the Seller's Shares on a bona fide arm's length sale to a Third Party Purchaser at a price not less than the purchase price specified in the Transfer Notice and on terms no more favourable than those set out in the Transfer Notice provided that:
 - (a) the transfer is completed within sixty (60) days after the expiry of the Acceptance Period; and
 - (b) the Third Party Transferee and (any ultimate holding company of such Third Party Transferee, if so required by the Continuing Party) shall prior to completion of the transfer enter into an agreement with the Continuing Party to be bound (in terms reasonably satisfactory to the Continuing Party) by provisions corresponding to the Seller's obligations under this Agreement.

Part III

1. An offer by a Third Party Transferee pursuant to Clause 12.2 shall be made by notice in writing (the *Third Party Offer Notice*) and shall offer to purchase such proportion representing the percentage reduction of Hutchison's shareholding in Company of the Shares then held by the PT AM Party (the *PT AM Sale Shares*) at not less than the price per Share (whether in cash or shares) to be paid by or on behalf of the Third Party Transferee for the relevant Shares held by Hutchison (the *Third Party Offer Price*) and otherwise on terms no less favourable than those offered by the Third Party Transferee to Hutchison in respect thereof.
2. On receipt of the Third Party Offer Notice, the PT AM Party may sell the PT AM Sale Shares at the Third Party Offer Price by giving written notice to Hutchison and the Third Party Transferee within Fourteen (14) days of receiving the Third Party Offer Notice at the Third Party Offer Price on the terms set out in the Third Party Offer Notice and otherwise on the terms set out in the Third Party Offer Notice.
3. Any transfer of the PT AM Sale Shares pursuant to Part III of Schedule 1 shall be on the following terms:
 - (a) all (but not only some) of the PT AM Sale Shares will be sold and the PT AM Sale Shares will be sold free from all Encumbrances, together with all rights of any nature attaching to them including all rights to any dividends or other distributions declared, paid or made after the date of the notice of exercise of the relevant option (but otherwise without any representation and warranty on the part of the PT AM Party); and
 - (b) upon completion, Hutchison shall procure that the Third Party Transferee assumes, with effect from the completion date, any obligations of the PT AM Party under (and shall ensure the release or repayment of) any Counter Indemnities or any other guarantees, indemnities, loans, letters of comfort and/or counter-indemnities to third parties in relation to the funding of the business of the Company Group and receives the right to receive payment of all interest and repayment of all amounts of principal and all other rights under all loans made to any Company Group Member by the PT AM Party or, if some only of the PT AM Party's holding of Shares are transferred, a proportion of such obligations and loans representing the proportion of the PT AM Party's holding of Shares which have been transferred.
6. The PT AM Party shall be bound (subject only to any necessary approvals of shareholders and any Governmental Approvals) to sell the PT AM Sale Shares to the Third Party Transferee on giving the Third Party Transferee notice under paragraph 2. Completion of the sale and purchase of the PT AM Sale Shares shall take place within thirty (30) days of the day on which notice is given pursuant to either paragraph 2, or if any Governmental Approvals and approvals of shareholders of the PT AM Party and the Third Party Transferee have not been obtained by the end of that period, within five (5) Business Days of the date on which the last approval or Regulatory Approval to be obtained is obtained. Each of the PT AM Party and Hutchison shall use its reasonable endeavours to obtain or provide all reasonable assistance to obtain the Governmental Approvals and all other approvals as soon as possible. If such Governmental Approvals and other approvals are not obtained or waived within sixty (60) days following the date of the Third Party Offer Notice, then the PT AM Party's entitlement to sell the PT AM Sale Shares to the Third Party Transferee pursuant to clause 12.2 shall lapse.

Part IV
Default

1. The Default Call Option may be exercised by the non-defaulting Party (“**Transferee**”) giving notice in writing to the defaulting Party (“**Transferor**”) at any time within thirty (30) days of Transferee becoming aware of the occurrence of an Event of Default (the *Default Call Option Notice*) in respect of all (but not some only) of the Transferor’s Shares. Subject to paragraph 3, a Default Call Option Notice shall be irrevocable.
2. If a Default Call Option Notice is issued, an Expert shall be appointed to determine the Fair Price.
3. Within twenty (20) days of issue of the Expert’s certificate, Transferee may by notice to Transferor withdraw its Default Call Option Notice.
4. Subject only to any Government Approvals or approval of shareholders of (*Approvals*) and the provisions of paragraph 3 above, Transferor shall be bound to sell to Transferee all of Transferor’s Shares at 80% of the Fair Price.
5. Completion of the sale and purchase of Transferor’s Shares shall take place not earlier than twenty (20) and not later than thirty (30) days of the date of issue of the Expert’s certificate or, if any Approval has not been obtained by the end of that period, within ten (10) days of the date on which the last Approval to be obtained is obtained. Each of Hutchison and the PT AM Party shall use its best endeavours to obtain or waive the Approvals as soon as possible and, in any event, within sixty (60) days of the date of the Default Call Option Notice.
6. Any transfer of Transferor’s Shares pursuant to this Part IV (Default) of Schedule 1 shall be on the following terms:
 - (a) the Transferor’s Shares will be sold free from all Encumbrances, together with all rights of any nature attaching to them including all rights to any dividends or other distributions declared, paid or made after the date of the Default Call Option Notice;
 - (b) Transferee shall assume, with effect from the completion date, any obligations of Transferor under (and shall ensure the release or repayment of) any Counter Indemnities or any other guarantees, indemnities, loans, letters of comfort and/or counter-indemnities to third parties in relation to the funding of the business of the Company Group and receive the right to receive payment of all interest and repayment of all amounts of principal and all other rights under all loans made to the Company Group by Transferor;
 - (c) Transferor shall deliver to Transferee duly executed transfer(s) in favour of Transferee, or as it may direct, together with appropriate share certificate(s) for the Transferor’s Shares and a certified copy of any authority under which such transfer(s) is/are executed;

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- (d) against delivery of the transfer(s), Transferee shall pay the total consideration (determined in accordance with paragraph 4) for the Transferor's Shares to Transferor by electronic funds transfer for value on the completion date;
 - (e) the Parties shall procure (insofar as they are able) that the relevant transfer or transfers are registered in the name of Transferee or as it may direct; and
 - (f) Transferor shall do all such other things and execute all other documents (including any deed) as Transferee may reasonably require to give effect to the sale and purchase of the Transferor Shares.

Part V
Change of Control

1. The Control Call Option may be exercised by Hutchison giving notice in writing to PT AM (with a copy to ATT) at any time within thirty (30) days of Hutchison becoming aware of the occurrence of a Change of Control (the *Control Call Option Notice*) in respect of all (but not some only) of the PT AM Parties' Shares (the *Sale Shares*). Subject to paragraph 3, a Control Call Option Notice shall be irrevocable.
2. If a Control Call Option Notice is issued by Hutchison, then:
 - (a) the price payable for the Sale Shares shall be the value attributed to the PT AM Parties' total interest in the Company (the *Attributed Value*);
 - (b) if PT AM has given notice to Hutchison in accordance with the requirements of Clause 12.1(b), such notice shall specify the Attributed Value, expressed as a monetary amount, in US\$, and as a percentage of the total value of the relevant PT AM Party Shareholder Company, and provide supporting evidence to confirm the said Attributed Value;
 - (c) If PT AM has not given notice to Hutchison in accordance with the requirements of Clause 12.1(b), then Hutchison may request in the Control Call Option Notice that the Attributed Value be notified to Hutchison in accordance with paragraph 2(b) above, in which case PT AM shall provide the required details within fourteen (14) days of receipt of the request from Hutchison; and
 - (d) if there is no Attributed Value, or no or insufficient supporting evidence of the Attributed Value is provided in accordance with paragraph 2(b) above, as Hutchison may determine, acting reasonably, then an Expert shall be appointed to determine the Fair Price.
3. Within twenty (20) days: (a) of written notification to Hutchison of the Attributed Value and supporting evidence thereof required under paragraph 2(b) above, or (b) if there is no Attributed Value is provided (or no or insufficient supporting evidence thereof is provided, as Hutchison may determine, acting reasonably), of issue of the Expert's certificate, Hutchison may by notice to PT AM withdraw its Control Call Option Notice.
4. Subject only to any Government Approvals or approval of shareholders (*Approvals*) and the provisions of paragraph 3 above, the PT AM Parties shall be bound to sell to Hutchison all of their Shares at the Attributed Value (if any) or, if there is no Attributed Value, at the Fair Price.
5. Assuming Hutchison does not validly revoke a Change of Control Notice, completion of the sale and purchase of the PT AM Parties' Shares shall take place not earlier than twenty (20) and not later than thirty (30) days of the date of delivery to Hutchison of notice and supporting evidence of the Attributed Value or issue of the Expert's certificate (as the case may be) or, if any Approval has not been obtained by the end of that period, within ten (10) days of the date on which the last Approval to be obtained is obtained. Each of Hutchison and the PT AM Parties shall use their best endeavours to obtain or waive the Approvals as soon as possible and, in any event, within sixty (60) days of the date of the Control Call Option Notice.

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6. Any transfer of the PT AM Parties' Shares pursuant to this Part V (Change of Control) of Schedule 1 shall be on the following terms:
- (a) the PT AM Parties' Shares will be sold free from all Encumbrances, together with all rights of any nature attaching to them including all rights to any dividends or other distributions declared, paid or made after the date of the Control Call Option Notice;
 - (b) Hutchison shall assume, with effect from the completion date, any obligations of the PT AM Parties (and shall ensure the release or repayment of) any Counter Indemnities or any other guarantees, indemnities, loans, letters of comfort and/or counter-indemnities to third parties in relation to the funding of the business of the Company Group and receive the right to receive payment of all interest and repayment of all amounts of principal and all other rights under all loans made to the Company Group by the PT AM Parties;
 - (c) the PT AM Parties shall deliver to Hutchison duly executed transfer(s) in favour of Hutchison, or as it may direct, together with appropriate share certificate(s) for the PT AM Parties' Shares and a certified copy of any authority under which such transfer(s) is/are executed;
 - (d) against delivery of the transfer(s), Hutchison shall pay the total consideration (determined in accordance with paragraph 4 for the PT AM Parties' Shares to a bank account or bank accounts notified in writing to Hutchison by PT AM not less than seven (7) days prior to the completion date by electronic funds transfer for value on the completion date;
 - (e) the Parties shall procure (insofar as they are able) that the relevant transfer or transfers are registered in the name of Hutchison or as it may direct; and
 - (f) the PT AM Parties shall do all such other things and execute all other documents (including any deed) as Hutchison may reasonably require to give effect to the sale and purchase of the PT AM Parties' Shares.

HUTCHISON TELECOMMUNICATIONS INTERNATIONAL LIMITED**CODE OF ETHICS**

The Board of Directors (the “**Board**”) of Hutchison Telecommunications International Limited (the “**Company**”) has adopted this Code of Ethics (the “**Code**”) to guide and remind the directors, officers and employees (the “**Company Personnel**”) of the Company, its subsidiaries and affiliated businesses (the “**Group**”) of their responsibilities to the Group, other Company Personnel, customers and investors of the Group, governmental authorities and the general public. As the business of the Company depends on its reputation and the reputation of its financial records, this Code goes beyond the requirements of the law in many instances.

This Code should be interpreted in the context of all applicable laws, the Memorandum and Articles of Association of the Company, and all other corporate governance and disclosure policies and documents adopted by the Board. All Company Personnel must become familiar and fully comply with this Code. As this Code cannot and does not cover every applicable situation or provide answers to all questions that might arise, all Company Personnel are expected to use common sense in determining what is right or wrong, including a sense of when it is proper to seek guidance from supervisors, officers or professional advisors on the appropriate course of conduct.

This Code may be modified from time to time by the Board. Any changes to this Code will be provided to Company Personnel.

1. PURPOSE OF THE CODE

The purpose of this Code is to set standards for the Company Personnel as are reasonably necessary to promote (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely and understandable disclosure in the reports and documents that the Company files or submits to the U.S. Securities and Exchange Commission, the New York Stock Exchange, the Hong Kong Securities and Futures Commission or the Hong Kong Stock Exchange, and in any other public communications by the Company; (iii) compliance with applicable governmental and regulatory laws, rules, codes and regulations; (iv) prompt internal reporting of any violations of this Code; and (v) accountability for adherence to this Code.

2. COMPLIANCE WITH LAWS

All Company Personnel must conduct themselves in accordance and compliance with all applicable laws, rules, codes and regulations, including insider trading laws, wherever the Group conducts business.

- If a Company Personnel has questions as to whether an action or conduct complies with the law, a supervisor or legal counsel for the Group should be contacted.
- If a Company Personnel has any material or price-sensitive non-public information regarding the Group or any other public entity that has a business relationship with the Group, the Company Personnel may not buy or sell any securities of the Group or such other public entity or pass such material or price-sensitive non-public information along to others, until such information has become public.
- Violation of the law may result in civil and criminal penalties, including fines or jail sentences. Company Personnel who are uncertain as to the legal rules and Company policies governing purchases and sales of securities should review the Securities Trading Policy of the Company and, if in doubt, consult the Company Compliance Officers identified in the Securities Trading Policy.

3. CONFLICTS OF INTEREST

Company Personnel must maintain objectivity and must avoid conflicts of interest and subordination of judgment in the performance of their duties and responsibilities for the Group.

- Objectivity requires Company Personnel to be impartial and free of conflicts of interest. Company Personnel must not subordinate their judgment to personal gain and advantage or to the judgment of others, or be unduly influenced by their own interests or by the interests of others in forming judgments. Company Personnel must not participate in any activity or relationship that would constitute a conflict of interest.
- A conflict of interest would generally arise if a Company Personnel participated in any activity or relationship, directly or indirectly, that may impair or be presumed to impair the Company Personnel's objectivity, or that is somehow inconsistent with or opposed to the best interests of the Group.
- A non-exclusive list of situations where a conflict of interest could arise includes:
 - a Company Personnel participates as an officer, director or employee of, or consultant to, or has an interest in securities or other ownership interest in (other than owning securities of a publicly traded company or where the number of securities owned is insignificant compared to the number of securities outstanding), any organization or individual that has, or is seeking to have, a business relationship with the Group (such as a contractor, supplier, carrier or customer), or that is a competitor of the Group.

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- a Company Personnel buys, sells or leases any kind of property, materials, supplies, services, facilities or equipment from or to the Group, or to any organization or individual that has, or is seeking to have, a business relationship with the Group (such as a contractor, supplier, carrier or customer).

 - any of the above-mentioned situations, but involving a family member of the Company Personnel, including benefits accruing to a family member, rather than the Company Personnel himself.

 - Loans to and guarantees of obligations of Company Personnel incurred for personal reasons can also present conflicts of interest. The Group is prohibited by law from making any direct or indirect extension of credit, renewal or modification of an extension of credit, or arrangement for the extension of credit, in the form of a personal loan to any Officers or Directors of the Group.¹ Examples of the types of extensions of credit that are prohibited under this Code include, without limitation, loans to cover relocation expenses, temporary housing, and exercise price paid in so-called cashless exercises of stock options. It is the policy of the Company that such loans will generally not be made to other Company Personnel.

 - Company Personnel may not solicit any personal advantage from clients, suppliers or any person in connection with the Group's business. In addition, Company Personnel should decline advantages offered directly or indirectly in connection with their duties if the acceptance of advantages could or might appear to affect their objectivity or induce them to act against the Group's best interests or lead to complaints of bias. The term "advantage" is defined in the Hong Kong Prevention of Bribery Ordinance and includes gift, loan, fee, reward, office, employment, contract, service and favour. Company Personnel should never accept any gift of cash or cash equivalents or securities. Company Personnel may consider accepting voluntarily given advantages only if:
 - the acceptance will not influence the performance of the recipient;

 - the recipient will not feel obliged to do something in return for the offeror;

 - the recipient is able to openly discuss the acceptance without reservation; and

 - the nature (e.g. advertising or promotional gift, customary gift or lucky money given during festive occasions) and the value (e.g. not exceeding HK\$500) of the advantage are such that refusal could be seen as unsociable or impolite.

¹ This prohibition does not apply to consumer credit such as open end credit plans or charge cards so long as such type of consumer credit is (a) made in the ordinary course of the Company's consumer credit business, (b) of a type generally made available by the Company to the public and (c) made on market terms or terms no more favorable than those offered by the Company to the general public for such types of loans.

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- Whether a conflict of interest would in fact arise would depend on the facts of each situation. Such facts would include the amount of business involved, the extent to which the Company Personnel could influence the decisions of the Group with respect to the transaction, and whether the interest is of such a nature that it might affect the objectivity or the business judgment of the Company Personnel.
 - This Code cannot and does not set forth every possible conflict of interest scenario. Therefore, there is no substitute for sound judgment by Company Personnel in each case based upon the particular facts involved.
 - Any Company Personnel who may be involved in a situation or activity that might be a conflict of interest or give the appearance of a conflict of interest must immediately report such situation or activity to the hotline system of the Company (the “**Hotline**”) (details of which are on the intranet of the Company), the Company Personnel’s supervisor, Company legal counsel or the designated compliance officer of the Company (the “**Compliance Officer**”). All reports received shall be referred to the Compliance Officer, who shall confer with legal counsel and issue written advice to such Company Personnel as to whether or not the reported situation or activity is in fact a conflict of interest. The Compliance Officer and legal counsel shall consult with the Audit Committee to the extent they deem necessary or desirable. The Audit Committee will not be responsible for monitoring or enforcing this conflict of interest policy, but rather each Company Personnel is responsible for self-compliance with this conflict of interest policy.
 - Reporting of conflicts of interest, accounting-related matters and illegal or unethical behavior is addressed in greater detail in Section 13 (Reporting of Illegal or Unethical Behavior) of this Code.

4. CORPORATE OPPORTUNITIES

Company Personnel must not (i) take for themselves personally any opportunities discovered through the use of property or information of or position with the Group; (ii) use any property or information of or position with the Group for personal gain; or (iii) compete with the Group.

- Company Personnel owe a duty to the Group to advance its legitimate interests when the opportunity to do so arises.
- Unless expressly required or authorised by the Company, Company Personnel must not participate as an officer, director of employee of, or consultant to, or have an equity interest in (other than owning securities of a publicly traded company or where the number of securities owned is insignificant compared to the number of securities outstanding), any organization or individual that is, or plans to be, engaged in any type of business that is similar to the types of businesses carried on by the Group.

5. FAIR DEALING AND INTEGRITY

Company Personnel should endeavor to deal fairly with customers, suppliers, competitors and employees of the Group, governmental authorities and the general public.

- Company Personnel should not take unfair advantage of or injure anyone through manipulation, concealment, abuse of privileged or confidential information, misrepresentation of material facts, fraudulent behavior or any other unfair dealing practice.

Company Personnel must perform their duties and responsibilities for the Group with the highest degree of integrity.

- Integrity requires Company Personnel to perform their work with honesty, diligence, responsibility and in accordance with applicable laws. In the performance of their work, Company Personnel must not knowingly be a party to any illegal activity or engage in acts that are discreditable to the Group. Integrity requires Company Personnel to observe both the form and the spirit of the ethical principles contained in this Code.

6. DISCRIMINATION OR HARASSMENT

The Company is committed to providing a work environment that is free from all forms of discrimination on the basis of race, ethnicity, gender, creed, religion, age, disability or sexual preference. It is the Company's policy to provide equal opportunity to all employees with regard to hiring, pay rates, training and development, promotions and other terms of employment. Employment decisions will comply with all applicable employment laws and regulations.

The Company does not tolerate harassment, including sexual harassment, in any form.

7. PROTECTION AND PROPER USE OF COMPANY ASSETS

Assets of the Group shall be used by Company Personnel for legitimate business purposes and not for personal use.

- Assets of the Group include, among other things, information, resources, materials, supplies, money, property (including intellectual property, software, hardware and facilities) and the time and talent of Company Personnel.
- Company Personnel should protect the assets of the Group by avoiding carelessness and waste and by using such assets prudently and efficiently to conduct the business of the Group for its customers.
- The personal use (including theft) of assets of the Group without permission from the Company is prohibited.

8. POLITICAL CONTRIBUTIONS AND INFLUENCES; BRIBERY

Company Personnel must not use any funds or assets of the Group for contributions to any political party or candidate for public office. In addition, Company Personnel may not make any political contributions as a representative of the Group or create the impression that the Company Personnel is acting as a representative of the Company.

Company Personnel must not offer bribes, similar considerations or anything of value to any public employee or any other person or company with the intent of improperly influencing any governmental entity, or such person or company, for the purpose of obtaining or retaining business for, directing business to or otherwise gaining some benefit or advantage for, the Company or any company within the Group.

- Any commissions paid or payments made, or favourable terms conceded, or other advantages given by any Company Personnel in the conduct of the Group's business shall be in accordance with the Company's prevailing policies on such matters and this Code. Any exceptional commissions, payments, favourable terms or advantages paid or granted should be subject to prior written approval of the Company.
- All Company Personnel are subject to the provisions of the U.S. Foreign Corrupt Practices Act and the Hong Kong Prevention of Bribery Ordinance.

9. COMPANY BOOKS AND RECORDS

Company Personnel are responsible for providing honest, accurate information in the course of their work with the Group.

- Accounts, financial reports, research reports, marketing information, sales reports, tax returns and information, expense accounts, time reports, claims and all other books, records and documents of the Group must be kept in such a way as to accurately and completely reflect all Group transactions.
- Knowingly providing false, incomplete or inaccurate information is improper and, in some situations, illegal. Certain types of information and documents must be updated or amended if changes become known. Company Personnel must not withhold or fail to provide information to their supervisors or management.

10. PREPARATION OF FINANCIAL STATEMENTS

Company Personnel must not knowingly make any misrepresentations regarding the financial statements of the Company or a member of the Group (collectively, the "Financial Statements") or any facts in the preparation of the Financial Statements, and must comply with all applicable laws, standards, principles, guidelines, rules and regulations in the preparation of the Financial Statements.

- Company Personnel must not knowingly make any misrepresentations regarding any facts in the preparation of the Financial Statements, records or related information, which includes knowingly:
 - (i) making, or permitting or directing another to make, materially false or misleading entries in the Financial Statements or records;

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- (ii) failing to correct the Financial Statements or records that are materially false or misleading when he has the authority to record an entry; and
 - (iii) signs, or permitting or directing another to sign, a document containing materially false or misleading financial information.
- Company Personnel must be scrupulous in their application of generally accepted accounting principles. Company Personnel must not (i) express an opinion or state affirmatively that the Financial Statements or other financial data of the Group are presented in conformity with generally accepted accounting principles, or (ii) state that he is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such Company Personnel knows or should reasonably know that such statements or data contain any departure from generally accepted accounting principles then in effect in the applicable jurisdiction for which such statements are being prepared.
 - Company Personnel must follow the laws, standards, principles, guidelines, rules and regulations established by all applicable governmental bodies, commissions or other regulatory agencies in the preparation of Financial Statements, records and related information. If a Company Personnel prepares Financial Statements, records or related information (such as “Management’s Discussion and Analysis of Financial Condition and Results of Operation”) for purposes of reporting to such bodies, commissions or regulatory agencies, the Company Personnel should follow the requirements of such organizations in addition to generally accepted accounting principles.
 - Company Personnel must coordinate and consult with the Disclosure Committee of the Company to ensure they are aware of, and carry out, their duties and responsibilities in accordance with all relevant disclosure obligations of the Company.
 - If a Company Personnel and his supervisor have a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the Company Personnel should take the following steps to ensure that the situation does not constitute a subordination of judgment:
 - (i) The Company Personnel should consider whether (A) the entry or the failure to record a transaction in the records, or (B) the financial statement presentation or the nature or omission of disclosure in the financial statements, as proposed by the supervisor, represents the use of an acceptable alternative and does not materially misrepresent the facts or result in an omission of a material fact. If, after appropriate research or consultation, the Company Personnel concludes that the matter has authoritative support and/or does not result in a material misrepresentation, the Company Personnel need do nothing further.
 - (ii) If the Company Personnel concludes that the financial statements or records could be materially misstated, the Company Personnel should make his concerns known to the Hotline, Company legal counsel or the Compliance Officer. All reports received shall be referred to the Compliance Officer, who shall confer with legal counsel and advise the Company Personnel and his supervisor of the position of the Company on the matter. The Compliance Officer and legal counsel shall consult with the Audit Committee to the extent they deem necessary or desirable.

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- If, after receiving the position of the Company on the matter, the Company Personnel concludes that appropriate action was not taken, he should consider his continuing relationship with the Group. The Company Personnel also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the independent external auditor of the Company or any company within the Group (each, an “**External Auditor**”). In this connection, the Company Personnel may wish to consult with his own legal counsel.

11. OBLIGATIONSTOTHE EXTERNAL AUDITOR

Company Personnel must be candid in all dealings with the External Auditor.

- In dealing with the External Auditor, Company Personnel must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts, and must respond to specific inquiries and requests by the External Auditor.
- Company Personnel must not take any action, or direct any person to take any action, to fraudulently influence, coerce, manipulate or mislead the External Auditor in the performance of an audit of the Financial Statements for the purpose of rendering such Financial Statements materially misleading.

12. CONFIDENTIALITY

Company Personnel must not disclose any confidential information of the Group, its customers, suppliers, business partners, Company Personnel or stockholders, except when disclosure is authorized by the Company or is legally mandated.

- Confidential information includes all non-public information relating to, among other things, decisions, operations, procedures, plans, earnings, financial or business forecasts, databases, names and addresses, competitive bids, formulas, designs, configurations, technical processes, methods or characteristics of machines, trade secrets, supplies, products or materials, research, development, strategies and know-how, regarding the Group, its customers, suppliers, business partners, business relationships, Company Personnel or shareholders, that might be of use to competitors or harmful to the Group, its customers, suppliers, business partners, business relationships, Company Personnel or shareholders, if disclosed.

13. REPORTINGOF ILLEGALOR UNETHICAL BEHAVIOR

Company Personnel should report any conduct or actions by a Company Personnel that do not comply with the law or with this Code.

- The Audit Committee of the Company has established procedures (the “**Complaint Procedures**”) for (A) the receipt, retention, and treatment of complaints received by the Group regarding accounting, internal accounting controls, auditing matters and illegal or unethical behavior; and (B) the confidential, anonymous submission by Company Personnel of concerns regarding questionable accounting or auditing matters and illegal or unethical behavior.
- Under the Complaint Procedures, the Company will maintain the Hotline for receiving complaints under the overall supervision of the Compliance Officer. The Hotline will include a dedicated phone line and a website. Details of the Hotline will be posted on the intranet of the Company.
- Any Company Personnel who questions whether a practice is acceptable must immediately report such practice to the Hotline, the Company Personnel’s supervisor, Company legal counsel or the Compliance Officer. All reports received shall be referred to the Compliance Officer, who shall confer with legal counsel and issue a written advisory to such Company Personnel as to whether or not the reported practice is in fact acceptable. The Compliance Officer and legal counsel shall consult with the Audit Committee to the extent they deem necessary or desirable. The Audit Committee will not be responsible for monitoring or enforcing this reporting of violations policy, but rather each Company Personnel is responsible for self-compliance with this reporting of violations policy.
- If it is determined that a Company Personnel violated this Code, failed to report a known or suspected violation of this Code, or provided intentionally false or malicious information in connection with an alleged violation of this Code, the Company may take disciplinary action against any such Company Personnel to the extent compliance officer and legal counsel deem appropriate. No Company Personnel will be disciplined for reporting a concern in good faith.
- Under the “whistleblower” provisions of the U.S. Sarbanes–Oxley Act, no member of the Group may retaliate (discharge, demote, suspend, threaten, harass or discriminate against) against any Company Personnel for providing information to or assisting with an investigation by the U.S. Congress or any U.S. Federal regulatory or law enforcement agency or the Company Personnel’s supervisor.
- To the extent possible, as allowed by law, and subject to the confidentiality protections for employees contained in the Complaint Procedures of the Company, reports will be treated as confidential.

14. WAIVERS AND AMENDMENTS OF THIS CODE

Any waiver or amendment of this Code for executive officers or directors must be promptly disclosed to stockholders of the Company.

- Any waiver of this Code may be made only by the Board or a committee of the Board to which such responsibility has been delegated.

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- The nature of any amendment, other than technical, administrative or other non-substantive amendments, of this Code must be disclosed.
 - The nature of any waiver, including an implicit waiver, of this Code, the name of the Company Personnel to whom the waiver was granted, and the date of the waiver must be disclosed.
 - “Waiver” means the approval of the Company of a material departure from any provision of this Code.
 - “Implicit waiver” means a failure of the Company failure to take action within a reasonable time regarding any material provision of this Code that has been made known to an executive officer of the Company.

A copy of this Code shall be posted on the website of the Company, www.htil.com.

**CERTIFICATIONS PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Dennis Pok Man Lui, certify that:

1. I have reviewed this annual report on Form 20-F of Hutchison Telecommunications International Limited (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 26, 2007

/s/ Dennis Pok Man Lui

Name: Dennis Pok Man Lui
Title: Chief Executive Officer

**CERTIFICATIONS PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Tim L. Pennington, certify that:

1. I have reviewed this annual report on Form 20-F of Hutchison Telecommunications International Limited (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 26, 2007

/s/ Tim Lincoln Pennington

Name: Tim Lincoln Pennington
Title: Chief Financial Officer

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report of Hutchison Telecommunications International Limited (the "Company") on Form 20-F for the year ending December 31, 2006 (the "Report"), we, Dennis Pok Man Lui and Tim L. Pennington, Chief Executive Officer and Chief Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. § 1350, promulgated under Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 26, 2007

/s/ Dennis Pok Man Lui

Name: Dennis Pok Man Lui
Title: Chief Executive Officer

/s/ Tim Lincoln Pennington

Name: Tim Lincoln Pennington
Title: Chief Financial Officer

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