THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hutchison Whampoa Limited 和記黃埔有限公司, you should at once hand this circular to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hutchison Whampoa Limited
和記黃埔有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 13)

MAJOR TRANSACTION

ACQUISITION OF O_2 UK

2 June 2015

CONTENTS

Page

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Acquisition"	the proposed acquisition by the Purchaser from the Vendor of the entire issued share capital of O_2 UK in accordance with the terms and conditions of the Share Purchase Agreement
"Affiliate"	in relation to a person or entity, any direct or indirect subsidiary or direct or indirect holding company of that person or entity, any other direct or indirect subsidiary of such holding company and any entity controlled by, or under common control of, that person or entity
"ARPU"	average revenue per user
"Board"	the board of Directors
"Business Day"	any day on which banks are open generally for business in Hong Kong, London and Madrid, excluding Saturdays and Sundays
"Churn"	the percentage of average accesses which have been disconnected in a period, which is calculated by dividing disconnections (excluding migrations) by the average customers for the corresponding period
"CK Hutchison"	CK Hutchison Holdings Limited 長江和記實業有限公司 (Stock Code: 1), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"CKH Subsidiaries"	collectively, Continental Realty Limited, Fumanda Limited, Good Energy Limited, Guidefield Limited, Haldaner Limited, Harrowgate Investments Limited, Harvestime Holdings Limited, Hey Darley Limited, Hislop Resources Limited, Kam Chin Investment S.A., Mirabole Limited, Oriental Time Investment Limited, Polycourt Limited, Richland Realty Limited, Shining Heights Profits Limited, Top Win Investment Limited, Wealth Pleasure Limited, Well Karin Limited, White Rain Enterprises Ltd. and Winbo Power Limited, each of which is a wholly owned subsidiary of CK Hutchison and which in aggregate held, as at the date of the written shareholders' approval, 2,130,202,773 (or approximately 49.97%) of the issued shares of the Company
"CKI"	Cheung Kong Infrastructure Holdings Limited
"CKLS"	CK Life Sciences Int'l., (Holdings) Inc.

"CK Property"	Cheung Kong Property Holdings Limited (長江實業地產有限公司), an exempted company incorporated in the Cayman Islands on 2 January 2015 with limited liability
"Co-Investment"	the co-investment made by the Co-Investors, details of which are set out in the Co-Investment Announcement
"Co-Investment Announcement"	the discloseable transaction announcement by the Company dated 8 May 2015 in relation to the co-investment by the Co-Investors into MergeCo, which on or following Completion will, directly or indirectly, own the **3** UK Business and the O_2 UK Business
"Co-Investment Completion"	completion of the Co-Investment
"Co-Investment Subscription"	the proposed subscription by the Co-Investors pursuant to the Co-Investment Subscription Agreement, further details of which are set out in the Co-Investment Announcement
"Co-Investment Subscription Agreement"	the subscription agreement entered into on 8 May 2015 between the Company, MergeCo and the Co-Investors in relation to shares in MergeCo
"Co-Investors"	(i) Canada Pension Plan Investment Board; (ii) Evening Gold Investment Pte. Ltd., an Affiliate of GIC Private Limited; (iii) Limpart Holdings Limited, a wholly owned subsidiary of the Abu Dhabi Investment Authority; (iv) Caisse de dépôt et placement du Québec; and (v) BTG Investments, L.P. and BTG Pactual Global Partnership Investing Fund 1 LP
"Company"	Hutchison Whampoa Limited 和記黃埔有限公司 (Stock Code: 13), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries

"HIL"	Hutchison International Limited, a company incorporated in Hong Kong with limited liability on 7 March 1931, and a wholly owned subsidiary of the Company
"HKEI"	HK Electric Investments
"HKEIL"	HK Electric Investments Limited
"HKEIML"	HK Electric Investments Manager Limited
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"HPH Management"	Hutchison Port Holdings Management Pte. Limited
"HPH Trust"	Hutchison Port Holdings Trust
"HTAL"	Hutchison Telecommunications (Australia) Limited
"HTHKH"	Hutchison Telecommunications Hong Kong Holdings Limited
"Husky Energy"	Husky Energy Inc.
"Husky Sale Shares"	61,357,010 Husky Shares, representing approximately 6.24% of the common shares of Husky Energy in issue as at 26 March 2015
"Husky Shares"	the common shares of Husky Energy which are publicly traded and listed on the Toronto Stock Exchange
"Husky Share Exchange"	the proposed acquisition of the Husky Sale Shares pursuant to the Husky Share Exchange Agreement
"Husky Share Exchange Agreement"	the conditional agreement dated 9 January 2015 entered into in relation to the Husky Share Exchange, further details of which are set out in CK Hutchison's Merger Proposal circular dated 31 March 2015
"Hutchison Proposal"	the conditional share exchange offer made by CK Global Investments Limited, a wholly owned subsidiary of CK Hutchison, to certain Shareholders for the cancellation of their shares in the Company by way of a scheme of arrangement, further details of which are set out in CK Hutchison's Merger Proposal circular dated 31 March 2015

"HWL Investors"	Hutchison 3G UK Holdings (BVI) Limited and the HWL Subscriber(s), each an indirect wholly owned subsidiary of the Company
"HWL Securities Code"	the Model Code for Securities Transactions by Directors of the Company
"HWL Subscriber(s)"	one or more Affiliates of the Company to be nominated by the Company prior to Co-Investment Completion
"Latest Practicable Date"	27 May 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LKS Castle Trustee"	Li Ka-Shing Castle Trustee Company Limited, a company incorporated in the Cayman Islands and the trustee of The Li Ka-Shing Castle Trust, which held, as at the date of the written shareholders' approval, 11,496,000 (or approximately 0.27%) of the issued shares of the Company
"Macau"	Macau Special Administrative Region of the People's Republic of China
"MergeCo"	Hutchison 3G UK Holdings (CI) Limited, a company incorporated in the Cayman Islands having its registered office at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
"Merger Proposal"	collectively, the Husky Share Exchange and the Hutchison Proposal
"mmO_2 plc"	mmO_2 plc, a company incorporated in England and Wales, and a wholly owned subsidiary of O_2 UK
"O_2 UK"	Telefónica Europe plc, a company incorporated in England and Wales having its registered office at 260 Bath Road, Slough, Berkshire, SL1 4DX, United Kingdom and the owner of the O_2 UK Business
"O_2 UK Business"	the telecommunications business carried on by the O_2 UK Group in the UK, primarily under the commercial brand '***O_2***'
"O_2 UK Group"	(i) O_2 UK, (ii) the Subsidiaries (as defined in the Share Purchase Agreement), and (iii) the JV Companies (as defined in the Share Purchase Agreement)
"Parent Guarantee"	the guarantee in respect of the Share Purchase Agreement dated 25 March 2015 granted by the Company as guarantor in favour of the Vendor

"Power Assets"	Power Assets Holdings Limited 電能實業有限公司
"Purchaser"	Hutchison 3G UK Investments Limited, a company incorporated in England and Wales having its registered office at Hutchison House, 5 Hester Road, Battersea, London, SW11 4AN, United Kingdom
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of shares in the Company
"Share Purchase Agreement"	the agreement entered into on 25 March 2015 between the Vendor, the Purchaser and MergeCo for the sale and purchase of the entire issued share capital of O_2 UK
"Spin-off Proposal"	the proposed spin-off of the combined property businesses of the CK Hutchison group and the Group by way of a distribution in specie and separate listing of Cheung Kong Property Holdings Limited, further details of which are set out in Cheung Kong Property Holdings Limited's listing document dated 8 May 2015
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to the term under the Listing Rules
"TOM"	TOM Group Limited
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Vendor"	Telefónica, S.A., a company incorporated in Spain having its registered office at Gran Via número 28, 28013 Madrid, Spain
"**3** UK Business"	the telecommunications business carried on in the UK by Hutchison 3G UK Limited, an indirect wholly owned subsidiary of the Company, under the commercial brand '***3***'
"£"	British Pound sterling(s), the lawful currency of the UK
"%"	per cent.

In this circular, the HK$ amounts have been converted from British Pound amounts at the rate of £1.00 to HK$12.00. Such conversions are for the convenience of the readers only. No representation is made that the British Pound amounts have been, could have been or could be, converted into HK$, or vice versa, at such rate or at any other rates on any relevant dates.

In this circular, any reference to a date or time is a reference to the Hong Kong date or time unless expressly provided otherwise.

Hutchison Whampoa Limited
和記黃埔有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 13)

Executive Directors
Mr LI Ka-shing *(Chairman)*
Mr LI Tzar Kuoi, Victor *(Deputy Chairman)*
Mr FOK Kin Ning, Canning *(Group Managing Director)*
Mrs CHOW WOO Mo Fong, Susan
(Deputy Group Managing Director)
Mr Frank John SIXT *(Group Finance Director)*
Mr LAI Kai Ming, Dominic
Mr KAM Hing Lam

Non-executive Directors
Mr LEE Yeh Kwong, Charles
Mr George Colin MAGNUS

Independent Non-executive Directors
Mr CHENG Hoi Chuen, Vincent
The Hon Sir Michael David KADOORIE
Ms LEE Wai Mun, Rose
Mr William Elkin MOCATTA
(alternate to The Hon Sir Michael David Kadoorie)
Mr William SHURNIAK
Mr WONG Chung Hin

Registered office
22nd Floor, Hutchison House
10 Harcourt Road
Hong Kong

Company Secretary
Ms Edith SHIH

2 June 2015

To the Shareholders

Dear Sir or Madam,

Major Transaction

Acquisition of O_2 UK

INTRODUCTION

Reference is made to the announcement of the Company dated 25 March 2015 relating to the Acquisition.

The purpose of this circular is to provide you with further details in relation to the Acquisition and other information in accordance with the Listing Rules.

THE ACQUISITION

A. Introduction

On 25 March 2015, the Purchaser and MergeCo (each an indirect wholly owned subsidiary of the Company as at the date of this circular) entered into the Share Purchase Agreement with the Vendor pursuant to which the Purchaser conditionally agreed to purchase the entire issued share capital of O_2 UK for an aggregate cash purchase price of: (i) £9.25 billion (equivalent to approximately HK$111 billion), which is subject to adjustment and payable at Completion by the Purchaser (the "**Initial Purchase Price**"); and (ii) deferred upside interest sharing payments of up to a further £1 billion in aggregate (equivalent to approximately HK$12 billion), payable by MergeCo, or another party procured by MergeCo, after the cumulative cash flow of the combined **3** UK Business and O_2 UK Business has reached an agreed threshold (the "**Upside Payment**") ((i) and (ii) together, the "**Consideration**"). The timing and amounts of these payments will depend on the actual cash flows of the combined businesses.

Prior to completion of the Acquisition, the Company will, pursuant to an intra-group reorganisation, transfer to MergeCo the company that holds the **3** UK Business.

The Acquisition is expected, upon Completion, to create the number 1 mobile operator in the UK with almost 33 million customers on a combined basis.

B. Principal Terms of the Share Purchase Agreement

The terms and conditions of the Share Purchase Agreement, including the Consideration payable, were determined on an arm's length basis and on normal commercial terms.

Date

25 March 2015

Parties

(i) The Vendor

(ii) The Purchaser

(iii) MergeCo

Assets to be acquired

The Purchaser has agreed to acquire from the Vendor the entire issued share capital of O_2 UK at Completion.

Consideration

The Consideration was determined by reference to, among other things, the overall financial position and performance of the O_2 UK Business, and is based on arm's length negotiations with the Vendor.

Consideration Adjustments

Pursuant to the Share Purchase Agreement, the Initial Purchase Price is subject to certain Completion adjustments, at or after Completion, provided that there shall be no net upward adjustment save as described in the section headed "Completion" below.

Following Completion, the businesses of the O_2 UK Group and of Hutchison 3G UK Limited, being the holding company of the **3** UK Business, will be consolidated under MergeCo. MergeCo, or another party procured by MergeCo, will pay to the Vendor the Upside Payment if the cumulative cash flow in the enlarged business after Completion has reached an agreed threshold, as calculated pursuant to the Share Purchase Agreement.

Conditions

Completion of the Acquisition is conditional on the satisfaction or waiver of certain conditions (the "**Conditions**"), including, amongst other things (i) the European Commission having confirmed that the Share Purchase Agreement is compatible with EU competition laws, either unconditionally or subject to reasonable conditions or obligations, (ii) the Vendor having completed its pre-Completion reorganisation in respect of the O_2 UK Group and (iii) the parties having obtained waivers and/or approvals under applicable regulations and contractual arrangements with third parties, prior to Completion.

The Conditions must be satisfied or waived by no later than 30 June 2016 (English time), save that in specified circumstances as set out in the Share Purchase Agreement this date may be extended to 30 September 2016 (English time) (the "**Long Stop Date**"). As at the Latest Practicable Date, save for the obtaining of written shareholders' approval, further details of which are set out in the section headed "Listing Rules Implications" of this circular, none of the Conditions have been satisfied or waived.

Should any of the Conditions not be satisfied (or otherwise waived in writing by the relevant party) by the Long Stop Date, the Share Purchase Agreement will automatically terminate unless the parties agree otherwise in writing. In the event that the Share Purchase Agreement is terminated, further announcement(s) will be made as and when appropriate in accordance with the Listing Rules.

Completion

Subject to the satisfaction or waiver of the conditions specified in the Share Purchase Agreement (including the Conditions), Completion will take place on either:

(i) the first Business Day of the month immediately following the month in which the Conditions are fulfilled or waived (as the case may be) in the event that the Conditions are fulfilled or waived between the first day of the month and 00:01 (English time) on the day which is 12 Business Days before the end of the month in which the Conditions are fulfilled or waived; or

(ii) the day that is 12 Business Days following the day on which the Conditions are fulfilled or waived in the event that the Conditions are fulfilled or waived after 00:01 (English time) on the day which is 12 Business Days before the end of the month in which the Conditions are fulfilled or waived.

In the event that Completion takes place on the date set out in (ii) above, the Purchaser shall pay an additional amount calculated by adding a daily amount of £1 million for each day from and excluding the last day of the month in which the Conditions are fulfilled or waived (as the case may be) to and including the date of Completion (the "**Locked Box Fee**"). The maximum amount payable in respect of the Locked Box Fee may not exceed £40 million (equivalent to approximately HK$480 million).

C. Payment of the Consideration

The Initial Purchase Price

The Initial Purchase Price will be funded by:

(i) a £6 billion (equivalent to approximately HK$72 billion) bridge loan facility that the Purchaser has entered into with HSBC Bank plc (further details of which are set out in the section headed "Bridge Loan" below);

(ii) MergeCo receiving net cash proceeds of up to approximately £2,770 million (equivalent to approximately HK$33,240 million) from the Co-Investors and net cash proceeds of up to approximately £280 million (equivalent to approximately HK$3,360 million) from the HWL Subscribers, such amounts to be applied to the Purchaser to in turn partly satisfy the Initial Purchase Price. Further details of the Co-Investment, pursuant to which the Co-Investors have conditionally agreed to subscribe for ordinary shares in MergeCo representing approximately 32.98% of the issued share capital of MergeCo at Co-Investment Completion, are set out in the Co-Investment Announcement; and

(iii) a £200 million (equivalent to approximately HK$2,400 million) short term shareholder loan from the HWL Investors.

The Upside Payment

The Upside Payment, if any, will be funded by each Co-Investor and the HWL Investors subscribing for additional ordinary shares in MergeCo, the allocation of which shall be made in proportion to the percentage shareholding of each Co-Investor and the HWL Investors in MergeCo at Co-Investment Completion. The amount which the Co-Investors are required to pay for their pro rata portion of the additional ordinary shares shall not exceed £329,787,234 (equivalent to approximately HK$3,957,446,808) and the amount which the HWL Investors are required to pay for their pro rata portion of the additional ordinary shares shall not in aggregate exceed £670,212,766 (equivalent to approximately HK$8,042,553,192).

D. Guarantee

Pursuant to the Parent Guarantee, the Company unconditionally and irrevocably guarantees to the Vendor the due and punctual compliance by each of the Purchaser and MergeCo with their respective obligations, commitments, undertakings, warranties and indemnities under the Share Purchase Agreement.

E. Bridge Loan

As described above, part of the Consideration will be funded by way of debt financing which will be made available to the Purchaser pursuant to a £6 billion bridge loan facility agreement dated 25 March 2015 between the Purchaser and HSBC Bank plc (in its capacity as a mandated lead arranger, original bank and facility agent). Under such bridge loan facility agreement, committed funds will be, subject to certain customary terms, provided to the Purchaser for a period of up to 24 months from the date of signing the bridge loan facility agreement to finance the Acquisition. The bridge loan facility is non-recourse to MergeCo and the Company - neither MergeCo nor the Company will be required to provide any credit support in connection with such bridge loan facility agreement.

F. Directors

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and the connected persons of the Company (as defined in the Listing Rules).

G. Ownership of O_2 UK upon Completion

Upon Completion, the **3** UK Business and the O_2 UK Business will be consolidated under MergeCo, and MergeCo will be indirectly held as to approximately 67.02% by the Company, and held as to approximately 32.98% by the Co-Investors. As a consequence, MergeCo will at Completion remain a subsidiary of the Group, holding the combined **3** UK Business and O_2 UK Business.

REASONS AND BENEFITS FOR ENTERING INTO THE ACQUISITION

The Board considers that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders taken as a whole for the following reasons:

(i) the Acquisition, together with the Group's existing investment in the **3** UK Business, will enable the Group to create the largest mobile telecommunications operator in the UK in terms of subscriber numbers;

(ii) the enlarged scale of the Group's mobile telecommunications business in the UK following the Acquisition will enable the Group to better meet and service customer requirements; and

(iii) the Acquisition will provide significant synergy potential through the combination of networks and cost bases.

The Board considered the terms and conditions of the Share Purchase Agreement to be determined on normal commercial terms and to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

The Group intends to finance the Acquisition in the manner described in the section headed "Payment of the Consideration" above.

The Directors are of the view that the Acquisition is not expected to have any material adverse impact on the financial position of the Group.

Upon Completion, O_2 UK will become an indirect subsidiary of the Company and O_2 UK's results, assets and liabilities will be included in the consolidated financial statements of the Company.

As set out in the Accountant's Report on the O_2 UK Business in Appendix II to this circular, the revenue and profit after tax from continuing operations of the O_2 UK Business was £5,691 million (equivalent to approximately HK$68,292 million) and £359 million (equivalent to approximately HK$4,308 million), respectively, for the year ended 31 December 2014. On this basis, it is expected that the consolidation of O_2 UK would have a positive impact on the Group's revenue and earnings after Completion.

Set out in Appendix III to this circular is certain unaudited pro forma financial information of the Enlarged Group, which illustrates the effect of Completion on the assets and liabilities of the Enlarged Group, assuming that Completion (as well as Co-Investment Completion) had taken place on 31 December 2014. As set out in Appendix III to this circular, the net assets of the Enlarged Group as at 31 December 2014 would increase from approximately HK$519,062 million to approximately HK$549,662 million as a result.

INFORMATION ABOUT THE GROUP

The Group operates and invests in six core businesses: ports and related services, property and hotels, retail, infrastructure, energy, and telecommunications.

The Group's telecommunications division includes the **3** Group businesses in Europe, which operate in six countries across Europe (namely the UK (under the **3** UK Business), Italy, Sweden, Denmark, Austria and Ireland) and provides high-speed mobile telecommunications and mobile broadband services. The Group also operates telecommunications businesses in six markets across Asia Pacific (namely Australia, Hong Kong, Indonesia, Macau, Sri Lanka and Vietnam).

INFORMATION ABOUT THE VENDOR

The principal business of the Vendor group is the provision of telecommunications services primarily in Europe and Latin America. The ultimate parent of the Vendor group, Telefónica, S.A., is a corporation duly organised and existing under the laws of the Kingdom of Spain and is listed on (i) the four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao), (ii) the London and Buenos Aires stock exchanges, and (iii) the New York and Lima stock exchanges, through American Depositary Shares.

INFORMATION ABOUT O_2 UK AND THE O_2 UK BUSINESS

O_2 UK is a company incorporated in England and the owner of the O_2 UK Business, a leading digital communications business with over 24 million customers and over 450 retail stores. The O_2 UK Business runs 2G, 3G and 4G networks across the UK, as well as operates O_2 Wifi and owns half of Tesco Mobile.

Set out below is a summary of the audited combined financial information of the O_2 UK Business prepared in accordance with HKFRS and as set out in Appendix II to this circular:

(i) the audited combined net asset value of the O_2 UK Business was £4,591 million (equivalent to approximately HK$55,092 million) as at 31 December 2014;

(ii) the audited combined net profit (before taxation) from continuing operations of the O_2 UK Business for the years ended 31 December 2013 and 31 December 2014 was £411 million (equivalent to approximately HK$4,932 million) and £455 million (equivalent to approximately HK$5,460 million) respectively; and

(iii) the audited combined net profit (after taxation) from continuing operations of the O_2 UK Business for the years ended 31 December 2013 and 31 December 2014 was £306 million (equivalent to approximately HK$3,672 million) and £359 million (equivalent to approximately HK$4,308 million) respectively.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as set out and calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 25% but all are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to the Listing Rules, shareholders' approval is required for a major transaction. As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Acquisition, written shareholders' approval has been obtained from the CKH Subsidiaries and LKS Castle Trustee, a closely allied group of shareholders who together hold more than 50% of the shares in the Company giving the right to attend and vote at that general meeting of the Company, were it required to be convened, pursuant to Rule 14.44 of the Listing Rules. After the obtaining of this written shareholders' approval, the Company is not required to convene a general meeting for approving the Acquisition.

The respective shareholdings of the CKH Subsidiaries and LKS Castle Trustee as at the date of the written shareholders' approval are as follows:

Shareholders	**Number of Shares**		**Percentage**
CKH Subsidiaries	2,130,202,773	(in aggregate)	49.97%
LKS Castle Trustee	11,496,000		0.27%
Total	2,141,698,773		50.24%

Each of the CKH Subsidiaries is wholly owned by CK Hutchison. Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are each an executive director of CK Hutchison. LKS Castle Trustee is the trustee of a discretionary trust of which Mr Li Ka-shing is the settlor and, among others, Mr Li Tzar Kuoi, Victor is a discretionary beneficiary. Accordingly, the CKH Subsidiaries and LKS Castle Trustee constitute a closely allied group of shareholders in relation to the Company.

As completion of the Share Purchase Agreement is conditional on the satisfaction (or, if applicable, waiver) of certain conditions, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Hutchison Whampoa Limited
LI Ka-shing
Chairman

1. FINANCIAL INFORMATION OF THE GROUP FOR THE YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

Financial information of the Group for each of the years ended 31 December 2012, 2013 and 2014 is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.hutchison-whampoa.com):

- annual report of the Company for the year ended 31 December 2014 (pages 168 to 274) (http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN201504291356.pdf);
- annual report of the Company for the year ended 31 December 2013 (pages 158 to 270) (http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0407/LTN20140407669.pdf); and
- annual report of the Company for the year ended 31 December 2012 (pages 146 to 238) (http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0408/LTN20130408919.pdf).

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 March 2015, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had the following outstanding borrowings:

The Group

Borrowings

As at 31 March 2015, the Group had total outstanding borrowings of approximately HK$240,870 million comprising: (i) bank loans of HK$57,955 million, of which HK$1,233 million were secured and HK$56,722 million were unsecured, (ii) other loans of HK$4,708 million, of which HK$280 million were secured and HK$4,428 million were unsecured; and (iii) notes and bonds of HK$178,207 million which were unsecured.

Pledge of assets

As at 31 March 2015, the Group had pledged assets with aggregate carrying values of approximately HK$1,777 million, of which approximately HK$1,399 million and HK$378 million are pledged as collateral for bank loans and other loans respectively.

Contingent liabilities and guarantees

As at 31 March 2015, the Group had contingent liabilities of approximately HK$28,512 million. The contingent liabilities comprised guarantees in respect of bank and other borrowing facilities to associated companies and joint ventures of approximately HK$24,856 million, and performance and other guarantees of HK$3,656 million.

O_2 UK Business

As at 31 March 2015, the O_2 UK Group had unsecured other borrowings of approximately HK$247 million and amounts due to related entities of Telefónica, S.A. of approximately HK$9,481 million.

Save as set out above and apart from intra-group liabilities and guarantees, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at 31 March 2015.

3. WORKING CAPITAL

Taking into account the Enlarged Group's internal resources and available credit facilities, and in the absence of unforeseeable circumstances, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

A. Combined 3 UK Business and O_2 UK Business

The combined **3** UK Business and O_2 UK Business will create the number 1 mobile operator in the UK with almost 33 million customers. The enlarged scale and financial strength will allow the combined business to be a more effective and aggressive competitor in the rapidly evolving UK telecommunications sector.

The significant synergy potentials expected from the combined business's network and cost base will provide a stronger platform to compete in a market that will remain dynamic and fully competitive. The combined networks will support a market-leading network infrastructure with improved coverage and capacity. Together with quality and innovative services and the continued focus on the core strengths of the companies, the combined business will be able to deliver genuine benefits to the businesses and customers in the UK, and in turn will generate accretive earnings and cash flow contribution to its shareholders.

B. Enlarged Group

The Enlarged Group will continue to achieve an optimal balance between progress and stability. It is the intention of the Enlarged Group to be steadfast in maintaining financial prudence in its pursuit of global acquisitions and investments. Through adhering to its fundamental financial discipline of maintaining a strong financial profile, the Enlarged Group intends to maintain strong liquidity and sufficient financial resources whilst maintaining an appropriate net debt to net total capital ratio to capitalise on potential merger and acquisition transactions and other accretive investment and collaboration opportunities as they arise, and to create shareholder value on a sustainable basis.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited accounts of the Company have been made up.

The following is the text of a report received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.

pwc 羅兵咸永道

2 June 2015

The Directors
Hutchison Whampoa Limited

Dear Sirs,

We report on the financial information of the O_2 UK Business, (the "Target Business"), which comprises the combined statements of financial position of the Target Business as at 31 December 2012, 2013 and 2014, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Business for each of the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (the "Financial Information"). This Financial Information is set out in Sections I to III below for inclusion in Appendix II to the circular of Hutchison Whampoa Limited (the "Company") dated 2 June 2015 (the "Circular") in connection with the acquisition of O_2 UK by Hutchison 3G UK Investments Limited, an indirect wholly owned subsidiary of the Company (the "Acquisition") following a reorganisation of the Target Business to be executed prior to completion of the Acquisition. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular.

No audited financial statements have been prepared for the Target Business. The audited financial statements of the entities that comprise the Target Business as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The principal entities that comprise the Target Business, together with details of their statutory auditors during the Relevant Periods, are set out in Note 30 of Section II below.

The Financial Information has been prepared based on the previously issued audited financial statements of O_2 UK and the audited consolidated financial statements of mmO_2 plc, which comprise the principal operating entities of the Target Business, and where appropriate, audited or unaudited financial statements of other entities comprising the Target Business during the Relevant Periods, on the basis set out in Note 2 of Section II below after making such adjustments as are appropriate. The financial statements of O_2 UK and mmO_2 plc during the Relevant Periods were audited by Ernst & Young LLP, United Kingdom.

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The directors of the respective entities comprising the Target Business are responsible for the preparation of the respective entities' financial statements for the Relevant Periods that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board as adopted by the European Union or the accounting framework appropriate to the relevant jurisdiction of incorporation of the respective entity, and for such internal control as the directors determine is necessary to enable the preparation of the respective entities' financial statements that are free from material misstatement, whether due to fraud or error. The Directors are responsible for the contents of the Circular in which this Financial Information is included.

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Business as at 31 December 2012, 2013 and 2014, and of the results and cash flows of the Target Business for each of the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE TARGET BUSINESS

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2012	**2013**	**2014**
	Note	*£m*	*£m*	*£m*
Continuing operations				
Revenue	6	5,667	5,669	5,691
Cost of inventories sold		(1,041)	(1,046)	(1,110)
Staff costs	7	(392)	(439)	(387)
Depreciation and amortisation		(744)	(854)	(797)
Other operating expenses		(3,014)	(2,894)	(2,903)
Share of profits less losses after tax of joint ventures	17	34	(6)	(7)
		510	430	487
Interest income		24	14	18
Interest expenses and other finance costs	9	(29)	(33)	(50)
Profit before tax	8	505	411	455
Tax	10	(29)	(105)	(96)
Profit after tax from continuing operations		476	306	359
Discontinued operations				
Profit (losses) after tax from discontinued operations	21	(649)	(81)	428
Profit (losses) after tax		(173)	225	787
Other comprehensive income (losses)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit assets/ liabilities recognised directly in reserves		(73)	(108)	(22)
Tax relating to items that will not be classified to profit or loss		19	24	5
		(54)	(84)	(17)
Items that have been reclassified or may be subsequently reclassified to profit or loss:				
Losses on translating overseas subsidiaries' net assets recognised directly in reserves		(42)	(2)	(1)
Realisation of translation differences upon disposal of subsidiaries		—	—	(452)
		(42)	(2)	(453)
Other comprehensive income (losses) after tax		(96)	(86)	(470)
Total comprehensive income (losses)		(269)	139	317

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 1 January	As at 31 December		
		2012	**2012**	**2013**	**2014**
	Note	*£m*	*£m*	*£m*	*£m*
ASSETS					
Non-current assets					
Fixed assets	13	2,739	2,788	2,500	2,459
Telecommunications licences	14	1,191	1,085	1,525	1,380
Goodwill	15	3,470	2,744	2,377	2,377
Other intangible assets	16	156	217	92	96
Interests in joint ventures	17	1	3	8	6
Deferred tax assets	24	3	1	3	2
Pension assets	25	1	49	—	37
Other non-current assets		157	71	106	247
		7,718	6,958	6,611	6,604
Current assets					
Cash and cash equivalents	18	1,287	846	310	139
Trade and other receivables	19	1,302	1,478	1,444	1,838
Inventories	20	68	56	68	50
		2,657	2,380	1,822	2,027
Non-current assets held for sale	21	—	88	818	—
		2,657	2,468	2,640	2,027
Current liabilities					
Trade and other payables	22	2,478	2,887	2,934	3,258
Other debts	23	435	19	72	24
Current tax liabilities		183	37	48	15
		3,096	2,943	3,054	3,297
Liabilities held for sale	21	—	4	167	—
		3,096	2,947	3,221	3,297
Net current liabilities		439	479	581	1,270
Total assets less current liabilities		7,279	6,479	6,030	5,334
Non-current liabilities					
Other debts	23	146	53	—	—
Deferred tax liabilities	24	20	42	37	54
Pension obligations	25	5	6	13	7
Other non-current liabilities	26	87	100	662	682
		258	201	712	743
Net assets		7,021	6,278	5,318	4,591
CAPITAL AND RESERVES					
Combined capital		449	449	449	449
Reserves		6,572	5,829	4,869	4,142
Total equity		7,021	6,278	5,318	4,591

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Reserves			
	Combined capital	Other reserves	Exchange reserve	Retained profit	Total
	£m	£m (note)	£m	£m	£m
At 1 January 2012	449	387	509	5,676	7,021
Losses for the year	—	—	—	(173)	(173)
Other comprehensive income (losses)					
Remeasurement of defined benefit assets/liability recognised directly in reserves	—	—	—	(73)	(73)
Loss on translating overseas subsidiaries' net assets recognised directly in reserves	—	—	(42)	—	(42)
Tax relating to components of other comprehensive income	—	—	—	19	19
Other comprehensive income (losses)	—	—	(42)	(54)	(96)
Total comprehensive income (losses)	—	—	(42)	(227)	(269)
Employee share schemes	—	—	—	(5)	(5)
Dividends paid (note 12)	—	—	—	(469)	(469)
At 31 December 2012	449	387	467	4,975	6,278
At 1 January 2013	449	387	467	4,975	6,278
Profit for the year	—	—	—	225	225
Other comprehensive income (losses)					
Remeasurement of defined benefit assets/liability recognised directly in reserves	—	—	—	(108)	(108)
Loss on translating overseas subsidiaries' net assets recognised directly in reserves	—	—	(2)	—	(2)
Tax relating to components of other comprehensive income	—	—	—	24	24
Other comprehensive income (losses)	—	—	(2)	(84)	(86)
Total comprehensive income (losses)	—	—	(2)	141	139
Employee share schemes	—	—	—	1	1
Dividends paid (note 12)	—	—	—	(1,100)	(1,100)
At 31 December 2013	449	387	465	4,017	5,318

	Combined capital	Reserves: Other reserves	Reserves: Exchange reserve	Reserves: Retained profit	Total
	£m	*£m* (note)	*£m*	*£m*	*£m*
At 1 January 2014	449	387	465	4,017	5,318
Profit for the year	—	—	—	787	787
Other comprehensive income (losses)					
Remeasurement of defined benefit assets/liability recognised directly in reserves	—	—	—	(22)	(22)
Loss on translating overseas subsidiaries' net assets recognised directly in reserves	—	—	(1)	—	(1)
Realisation of translation difference upon disposal of subsidiaries	—	—	(452)	—	(452)
Tax relating to components of other comprehensive income	—	—	—	5	5
Other comprehensive income (losses)	—	—	(453)	(17)	(470)
Total comprehensive income (losses)	—	—	(453)	770	317
Dividends paid (note 12)	—	—	—	(1,044)	(1,044)
At 31 December 2014	449	387	12	3,743	4,591

Note: Other reserves represent the excess of the consolidated net assets value of the entities in the Target Business acquired over the amount settled in prior years of £404 million and a revaluation deficit of £17 million.

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2012	2013	2014
	Note	*£m*	*£m*	*£m*
Operating activities				
Profit (loss) before tax from continuing operations		505	411	455
Profit (loss) before tax from discontinued operations	21	(647)	(82)	428
Profit (losses) before tax		(142)	329	883
Less: Share of profits less losses after tax of joint ventures		(34)	6	7
		(176)	335	890
Adjustments for				
- Depreciation and amortisation		744	854	797
- Interest expenses and other finance costs		29	33	50
- Interest income		(24)	(14)	(18)
- Impairment losses		655	72	—
- Gain on disposal of fixed asset		(40)	(5)	—
- Gain on disposal of investments		—	—	(431)
- Provision for (write back) estimated impairment losses for bad debts		(2)	(25)	12
Changes in working capital:				
- Inventories		12	(12)	18
- Trade and other receivables		(198)	57	(293)
- Trade and other payables		346	16	262
- Provisions		9	27	(5)
- Difference between pension charge and cash contributions		(116)	(49)	(63)
		1,239	1,289	1,219
Interest expenses and finance costs paid		—	(7)	(21)
Tax paid		(77)	(51)	(65)
Other non-cash items		(35)	16	(219)
Cash flows from operating activities		1,127	1,247	914
Investing activities				
Additions to fixed assets		(604)	(588)	(503)
Additions to telecommunications licences and other intangible assets		(154)	(673)	(110)
Addition to other assets		—	—	(118)
Proceeds on disposal of subsidiary companies		—	—	618
Interest received		9	7	3
Cash flows used in investing activities		(749)	(1,254)	(110)
Financing activities				
Net proceeds from (repayment of) other debts and amounts owed to related parties		(332)	604	34
Dividends paid		(469)	(1,100)	(1,044)
Cash flows used in financing activities		(801)	(496)	(1,010)
Decrease in cash and cash equivalents		(423)	(503)	(206)
Cash and cash equivalents at 1 January		1,287	846	347
Exchange gains (losses) on cash and cash equivalents		(18)	4	(2)
Cash and cash equivalents at 31 December		846	347	139
Cash and cash equivalents at 31 December				
- Continuing operations		846	310	139
- Discontinued operations		—	37	—
		846	347	139

II NOTES TO THE FINANCIAL INFORMATION OF THE TARGET BUSINESS

1 General information

The O_2 UK Business (the "Target Business") is principally engaged in the provision of mobile telecommunication services and products in the United Kingdom (the "UK"). The Target Business is managed in the UK. The address of the head office of the Target Business is 260 Bath Road, Slough, Berkshire SL1 4DX, UK.

2 Basis of preparation and presentation

This Financial Information has been prepared solely for the purpose of the acquisition of the Target Business, and to present the combined statements of financial position as at 31 December 2012, 2013 and 2014, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Business for each of the years ended 31 December 2012, 2013 and 2014.

The Target Business has not historically formed a separate legal group and has not prepared or reported any combined or consolidated financial information. Therefore, the Financial Information has been presented on a combined basis as the Target Business was managed together as a single business. The Target Business was under the common control of Telefónica S.A. throughout the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods").

The Financial Information represents assets, liabilities, income and expenses related to the Target Business during the Relevant Periods, and has been prepared solely based on the previously issued audited financial statements of O_2 UK and audited consolidated financial statements of mmO_2 plc which comprise the principal operating entities of the Target Business. The Financial Information also incorporates the results, assets and liabilities of a UK branch of the Vendor group which directly relates to the Target Business (the "Branch"). The financial information of the Branch has not been previously consolidated in the financial statements of O_2 UK and mmO_2 plc and has been included in the Financial Information based on management accounts of the relevant entity. The Financial Information also reflects certain Irish operations which formed part of the Target Business until being disposed of during 2014 and is therefore presented as discontinued operations of the Target Business during the Relevant Periods.

This Financial Information of the Target Business is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and has been adjusted to reflect the applicable accounting policies of the Company and its subsidiaries as set out in the consolidated financial statements of the Company for the year ended 31 December 2014. All significant transactions and balances within the Target Business have been eliminated on consolidation or combination.

The Financial Information should not be construed as indicative of the financial performance of the Target Business in any future period.

3 Significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These accounting policies have been consistently applied to all periods presented.

(a) ***Subsidiaries***

Subsidiaries are all entities over which the Target Business has control. Control is achieved when the Target Business is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Target Business controls an investee if, and only if, the Target Business has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)

- Exposure, or rights, to variable returns from its involvement with the investee

- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Target Business has less than a majority of the voting or similar rights of an investee, the Target Business considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee

- Rights arising from other contractual arrangements

- The Target Business' existing voting rights and potential voting rights

The Target Business re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Target Business obtains control over the subsidiary and ceases when the Target Business loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the Financial Information from the date the Target Business gains control until the date the Target Business ceases to control the subsidiary. The financial statements of all subsidiaries are included in the Financial Information from the date when control commences until control ceases.

Inter-company balances and transactions between the combining entities or businesses are eliminated.

(b) ***Joint arrangements***

Hong Kong Financial Reporting Standard 11 establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements that meet the definition of a joint venture must be accounted for using the equity method, while joint arrangements that meet the definition of joint operations are accounted for by integrating assets and liabilities, and the related revenues and expenses, in proportion to the joint operator's interest in the arrangement.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Target Business' share of net assets of the joint venture since the acquisition date. The combined statements of comprehensive income reflect the Target Business' share of the results of operations of the joint ventures.

(c) ***Fixed assets***

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of fixed assets includes directly attributable incremental costs incurred in their acquisition and installation. Subsequent costs are included in the assets' 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 Target Business and the cost of the item can be measured reliably.

Depreciation is provided on fixed assets from the date they are available for use over their estimated useful lives on a straight-line basis. The lives assigned to fixed assets are:

Freehold buildings	40 years
Leasehold buildings	unexpired portion of lease
Network assets	5 to 15 years
Computers and office equipment	2 to 6 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at of the end of the reporting period. No depreciation is provided on freehold land or assets in the course of construction.

An item of fixed asset and any significant part initially recognised is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the combined statements of comprehensive income when the asset is derecognised.

(d) ***Goodwill***

Goodwill, arising from the purchase of subsidiary companies, represents the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of previously held equity interest in the acquiree over the fair value of the Target Business' net identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Goodwill is carried at cost, less any accumulated impairment losses. Goodwill is recognised as an asset denominated in the currency of the entity acquired and is tested for impairment annually or more frequently, if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable. The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill is allocated from the acquisition date.

(e) ***Telecommunications licences***

Telecommunication licence fees paid to the Government, which permit telecommunications activities to be operated for defined periods, are capitalised at cost less impairment losses. Telecommunication licence that are considered to have an indefinite useful life are not amortised and are tested for impairment annually and when there is indication that they may be impaired. Telecommunication licences with finite useful lives are amortised from the date of commercial launch of the service to the end of the licence period on a straight line basis. The remaining estimated useful lives of "3G" and "4G" licences are 7 years and 18 years respectively.

(f) ***Software***

Software is capitalised and measured at the cost incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of between 2 and 6 years on a straight-line basis. Costs that are directly associated with the production of identifiable unique software products controlled by the Target Business, which is expected to generate economic benefits over a period of more than one year, are recognised as intangible assets.

(g) ***Deferred tax***

Deferred tax is recognised, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses and tax credits can be utilised.

(h) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method less impairment. Interest calculated using the effective interest method is recognised in the combined statements of comprehensive income.

(i) ***Trade and other receivables***

Trade and other receivables are carried at original invoice amount less provision for impairment. A provision for estimated impairment losses for bad debts is established when there is objective evidence that the Target Business will not be able to collect all amounts due according to the original terms of the receivables. Provisions are made based on an analysis of balance by age, previous losses experienced, disputes and ability to pay. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows. Changes in the provision against receivables are recognised in the combined statements of comprehensive income within "Other operating expenses".

(j) ***Inventories***

Inventories comprise mainly handsets and are stated at the lower of cost and net realisable value, after provisions for obsolescence. Costs comprise costs of purchase and costs incurred in bringing inventory to its current location and condition.

(k) ***Cash and cash equivalents***

Cash and cash equivalents are carried in the combined statements of financial position at cost.

(l) ***Trade and other payables***

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) ***Combined capital***

Combined capital represents the combined share capital and share premium of the entities comprising the Target Business, after eliminating intra-group investments.

(n) ***Provisions***

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

(o) ***Leases***

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental under operating leases are charged to the combined statements of comprehensive income in equal annual instalments over the periods of the leases.

Leases in which the Target Business assumes substantially all the risks and rewards of ownership are classified as finance leases. Asset held under finance leases are capitalised at the lower of the present value of the minimum lease payments and the fair value of the asset at the inception of the leases and depreciated over the estimated useful economic lives of the assets. Finance charges are allocated over the period of the leases in proportion to the capital amount outstanding and are charged to the combined statements of comprehensive income.

(p) ***Asset impairment***

Assets that have an indefinite useful life are tested for impairment annually and when there is indication that they may be impaired. Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Such impairment loss is recognised in the combined statements of comprehensive income except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease.

(q) ***Pension plans***

The Target Business operates both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that sets the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Target Business pays fixed contributions on behalf of employees and under which there is no legal or constructive obligation to pay further contributions for employees' service in the current and prior periods.

The asset or liability recognised in the combined statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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.

(r) ***Share-based payments***

The Target Business recognises an expense for share awards and share options based on the fair value of the share awards or share options granted as compensation for the services rendered by employees. The fair value is calculated at the grant date using an adjusted statistical model and excludes the impact of non-market conditions. Instead, the expense is adjusted for the effect of non-market conditions at each reporting date through the number of share awards or share options expected to be exercisable. The effect of market and non-vesting conditions is included in the fair value at the date of grant and is recognised as an expense irrespective of whether the market or non-vesting condition is satisfied.

(s) ***Foreign currency translation***

Transactions in foreign currencies are initially recorded by the entities in the Target Business at their respective functional currency spot rates that the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Transactions denominated in foreign currencies are translated at the exchange rate on the day the transaction occurred to the functional currency of the entity. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the date of the combined statements of financial position.

Foreign exchange differences arising on translation are recognised in the combined statements of comprehensive income and allocated to categories more appropriate for the nature of the underlying transaction. Non-monetary assets and liabilities denominated in foreign currency are translated at the foreign currency exchange rate ruling at the dates the non-monetary assets and liabilities are recognised.

Net assets of foreign subsidiary undertakings, including related goodwill, are translated into sterling at the rates ruling at the date of the combined statements of financial position. The profit or loss and cash flows for the year of foreign subsidiary undertakings are translated at the average rates of exchange for the year.

Exchange adjustments arising on the translation into sterling of the operating net assets and profit or losses for the year retained by foreign subsidiary undertakings are recognised in other comprehensive income and accumulated in "Exchange reserve". On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the combined statements of comprehensive income.

(t) ***Revenue recognition***

Revenue, which excludes value added tax and other sales taxes, comprises the value of services provided, equipment sales and other revenue.

Mobile telecommunication service revenue includes revenue earned for usage of the Target Business' wireless network for voice and data transmission by the Target Business' customers, subscriptions fees, inbound roaming, outbound roaming and interconnect revenue. Post-pay customers are billed in advance for their monthly subscription fees and in arrears for call and other charges.

Hardware revenue principally consists of revenue from the sale of handsets. The revenue and related expenses associated with the sale of wireless handsets and accessories are recognised when the products are delivered and accepted by the customers.

Promotional offers and packages including difference elements are assessed to determine whether it is necessary to separate out each component and apply a revenue recognition policy to each element. Total revenue is split among the identified elements based on their respective fair values.

Revenue is recognised on a gross basis where the Target Business' role is that of principal in a transaction. The gross basis represents the gross value of the billing to the customer after trade discounts, with any related costs being charged to "Other operating expenses". Where the Target Business acts as an agent in a transaction, the net revenue earned is recognised as revenue.

(u) ***Customer acquisitions costs***

Customer acquisitions and retention costs are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expenses as incurred.

(v) ***Non-current assets held for sale***

The Target Business classifies non-current assets as held for sale if the carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probably and the asset or disposal group is available for immediate sale in its present condition. The sale must be committed which should be expected to qualify for recognition as a completed sale within one year from date of classification.

Fixed assets and intangible assets are not depreciated or amortised once classified as held for sale.

(w) ***New standards, amendments and interpretations in issue but not yet adopted***

The following standards, amendments and interpretation were in issue, and applicable to the Target Business' financial information for annual periods beginning on or after 1 January 2015, but not yet effective and have not been early adopted by the Target Business:

HKAS 1 (Amendments) (iii)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments) (iii)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 19 (2011) (Amendments) (i)	Defined Benefits Plan — Employee Contributions
HKAS 27 (Amendments) (iii)	Equity Method in Separate Financial Statements
HKFRS 9 (2014) (v)	Financial Instruments
HKFRS 10 and HKAS 28 (Amendments) (iii)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 11 (Amendments) (iii)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 15 (iv)	Revenue from Contracts with Customers
Annual Improvements 2010 — 2012 Cycle (ii)	Improvements to HKFRSs
Annual Improvements 2011 — 2013 Cycle (i)	Improvements to HKFRSs
Annual improvements 2012 — 2014 Cycle (iii)	Improvements to HKFRSs

(i) Effective for annual periods beginning on or after 1 January 2015.

(ii) Effective for annual periods beginning on or after 1 January 2015, except for "Amendment to HKFRS 2 Share-based Payment" and "Amendment to HKFRS 3 Business Combinations" which are applicable to share-based payment transactions with a grant date, and business combinations for which the acquisition date, is on or after 1 July 2014.

(iii) Effective for annual periods beginning on or after 1 January 2016.

(iv) Effective for annual periods beginning on or after 1 January 2017.

(v) Effective for annual periods beginning on or after 1 January 2018.

The potential impact of the application of the aforementioned standards, amendments and interpretations are currently under assessment. It is possible that such application may have some impact on the results of operations and financial position of the Target Business.

4 Financial risk management

The Target Business' principal financial liabilities, comprise finance lease, trade and other payables and non-current amounts owed to related parties. The purpose of these financial liabilities is to raise finance for the Target Business' operations. The Target Business has various financial assets such as trade receivables, cash and short term deposits.

The main sources of risk arising from the Target Business's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

(a) ***Financial risk factors***

(i) *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

The Target Business' principal credit risks are attributable to its trade receivables. Trade receivables as presented in the combined statements of financial position are net of provision for doubtful debts, estimated by the Target Business' management based on prior experience and their assessment of the current economic environment. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Trade receivables are typically granted a credit period of between 14 and 60 days from the date of invoice. For certain customers, the Target Business occasionally agrees beyond 60 days.

The Target Business maintains a well-defined credit policy and individual credit evaluations are performed on all new customers requiring credit over a certain value. Relevant information is considered with regard to a customer's propensity to default, before a decision to grant credit is made. Where appropriate, the Target Business may ask a customer for collateral or a deposit.

As at 31 December 2012, 2013 and 2014, the Target Business' exposure to debtors was considered an appropriate level for operating under the ordinary course of business.

With respect to credit risk arising from other financial assets of the Target Business, which mostly comprise cash and cash equivalents and amounts owed by related parties, the Target Business' exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Target Business does not require collateral in respect of financial assets.

(ii) *Foreign currency risk*

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Target Business is exposed to translational foreign exchange risk arising from various currency movements, primarily with respect to Euro that can affect its results and financial position.

The Target Business has a small amount of transactional exposures. Such exposure arises from revenue and purchases by an operating unit that is in currencies other than the units' functional currency.

(iii) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.

The Target Business holds financial assets primarily in short-term deposits with the related entities that are readily convertible to known amounts of cash. These measures help keep liquidity risk low.

The following tables set out contractual undiscounted cash outflows of financial liabilities, including interest payments.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	£m	*£m*	*£m*
At 31 December 2012			
Trade and other payables	1,359	—	—
Other debts	19	53	—
At 31 December 2013			
Trade and other payables	1,576	—	—
Other debts	72	—	—
Other non-current liabilities	—	—	590
At 31 December 2014			
Trade and other payables	1,822	—	—
Others debts	24	—	—
Other non-current liabilities	—	—	590

The following tables set out the maturity analysis of financial assets that are held to manage liquidity risk:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	£m	*£m*	*£m*
At 31 December 2012			
Trade and other receivables	857	—	—
Other assets	11	71	—
Cash and cash equivalents	846	—	—
At 31 December 2013			
Trade and other receivables	726	—	—
Other assets	72	106	—
Cash and cash equivalents	310	—	—
At 31 December 2014			
Trade and other receivables	1,022	—	—
Other assets	173	207	40
Cash and cash equivalents	139	—	—

(iv) *Interest rate risk*

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Target Business' interest rate risk arises primarily from the effects of movements in interest rates on the value of the Target Business' non-current amounts owed to related parties and interest received on cash and cash equivalents. The Target Business' non-current amounts owed to related parties and other financial assets are at fixed interest rates. Majority of the Target Business' cash and cash equivalents are deposited with a related company of the Target Business that pays interest rate at variable market rates.

Effective interest rates and re-pricing analysis

	Currency	Effective interest rate	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
			£m	*£m*	*£m*	*£m*
At 31 December 2012						
Other assets	USD	6.2%	82	11	71	—
Cash and cash equivalents	Sterling	0.4%	794	794	—	—
Cash and cash equivalents	Euro	0.2%	49	49	—	—
Cash and cash equivalents	USD	0.1%	3	3	—	—
Total cash and cash equivalents			846	846	—	—
Obligations under finance leases	USD	5.3%	(72)	(19)	(53)	—
At 31 December 2013						
Other assets	USD	6.2%	178	72	106	—
Cash and cash equivalents	Sterling	0.3%	276	276	—	—
Cash and cash equivalents	Euro	0.1%	32	32	—	—
Cash and cash equivalents	USD	0.2%	2	2	—	—
Total cash and cash equivalents			310	310	—	—
Amounts owed to related companies	Sterling	3.5%	(590)	—	—	(590)
Obligations under finance leases	USD	5.3%	(72)	(72)	—	—
At 31 December 2014						
Other assets	Sterling	—	420	173	207	40
Cash and cash equivalents	Sterling	0.3%	125	125	—	—
Cash and cash equivalents	Euro	0.1%	9	9	—	—
Cash and cash equivalents	USD	0.2%	5	5	—	—
Total cash and cash equivalents			139	139	—	—
Amounts owed to related companies	Sterling	3.5%	(590)	—	—	(590)
Obligations under finance leases	USD	5.3%	(24)	(24)	—	—

(b) ***Capital management***

The Target Business' objectives when managing capital are to safeguard the Target Business' ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Business may pay dividends to its shareholder, return capital to its shareholder, issue new shares or sell assets to reduce debt or draw down more debt.

(c) ***Fair value of financial instruments***

The carrying values and fair values of the Target Business' financial assets and financial liabilities as at 31 December 2012, 2013 and 2014 are:

At 31 December 2012	**Carrying value**	**Fair value**
	£m	*£m*
Assets		
Trade and other receivables	857	857
Other assets	82	82
Cash and cash equivalents	846	846
	1,785	1,785
Liabilities		
Trade and other payables	(1,359)	(1,359)
Other debts	(72)	(72)
	(1,431)	(1,431)

At 31 December 2013	**Carrying value**	**Fair value**
	£m	*£m*
Assets		
Trade and other receivables	726	726
Other assets	178	178
Cash and cash equivalents	310	310
	1,214	1,214
Liabilities		
Trade and other payables	(1,576)	(1,576)
Other debts	(72)	(72)
Other non-current liabilities	(590)	(590)
	(2,238)	(2,238)

At 31 December 2014	Carrying value	Fair value
	£m	*£m*
Assets		
Trade and other receivables	1,022	1,022
Other assets	420	420
Cash and cash equivalents	139	139
	1,581	1,581
Liabilities		
Trade and other payables	(1,822)	(1,822)
Other debts	(24)	(24)
Other non-current liabilities	(590)	(590)
	(2,436)	(2,436)

The fair value of the trade and other receivables, trade and other payables, short term deposits, cash at bank, and other debts approximates to the book carrying value due to the short-term or on demand maturity of these instruments. The fair value of other assets for disclosure purpose is equivalent to the carrying value. 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 Target Business for similar instruments.

5 Critical accounting estimates and judgements

The use of certain critical accounting estimates and assumptions are required in the preparation of the Financial Information. Judgement is required to be exercised in the process of applying the Target Business' accounting policies. A significant change in the facts and circumstances on which these estimates are based could have a material impact on the Target Business' results and financial position. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Financial Information are disclosed below.

(a) *Long-lived assets*

Accounting for long-lived assets such as fixed assets and telecommunications licences involves the use of estimates and judgements for determining the useful lives over which they are to be depreciated or amortised and the existence and amount of any impairment.

Long-lived assets that have an indefinite useful life are not depreciated and amortised but tested for impairment annually or when there is indication that they may be impaired. Long-lived assets that have finite useful life are subject to depreciation and amortisation on a straight line basis over their estimated useful lives and taking into account their expected residual values. When the Target Business estimates useful lives, various factors are considered including expected technological obsolescence, legal and contractual rights and usage of the asset. Annual review on asset lives is carried out and changes are made as necessary to reflect the estimated current remaining lives in light of changes in technology, legal and contractual rights, future economic utilisation and physical condition of the assets concerned. A significant change in asset lives can have a significant impact on depreciation and amortisation charges for the period.

The Target Business assesses the impairment of long-lived assets whenever there is reason to believe that the carrying value may exceed both the fair value and the value in use, and where a permanent impairment in value is anticipated. The determination of whether the impairment of these assets is necessary involves the use of estimates and judgements that includes, but is not limited to, the analysis of the cause of potential impairment in value, the timing of such potential impairment and an estimate of the amount of the impairment. The Target Business considers technological obsolescence, discontinuance of service and other changes in the circumstances as indications of the need to perform an impairment test. A significant change in the facts and circumstances that were relied upon in making the estimates may trigger the requirement for recording impairment and may have a material adverse impact on the operating results and financial condition of the Target Business.

The UK telecommunication licences held by the Company and its subsidiaries are considered to have indefinite useful lives and are therefore not amortised. The accounting for telecommunication licences held by the Target Business during the Relevant Periods was to capitalise and amortise over the licence periods from 7 to 18 years based on the management's assessment of their useful lives to Telefónica S.A. group. The amortisation of these licences charged to the combined statements of comprehensive income of the Target Business were £105 million, £130 million and £156 million for the years ended 31 December 2012, 2013 and 2014 respectively.

(b) ***Impairment of goodwill***

Goodwill is not subject to a regular amortisation charge and is instead tested annually to determine whether any impairment has arisen. This is completed by calculating the recoverable amount of cash-generating units ("CGUs") based on value in use calculations. These calculations require the use of estimates and judgements to calculate expected cash flows. Assumptions are made including, but not limited to, the discount rate to be applied, future technological evolution and revenue growth rates in calculating expected cash flow. A significant change in these facts and circumstances may have a material impact on the carrying value of goodwill.

(c) ***Deferred tax assets and liabilities***

The Target Business evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Target Business' ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated reversal of deferred taxes as well as estimates of taxable earnings, which are sourced from internal projections and are updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and materialisation of deferred tax assets and the forecast tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Target Business as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

(d) ***Provision for estimated impairment losses for bad debts***

The Target Business provides services to individuals and business customers on credit terms. The Target Business expects that some debts due will not be paid as a result of the default of a small number of customers. The Target Business uses estimates based on historical results and future expectations, the economic and competitive environment and other relevant factors to determine the provision for estimated impairment losses for bad debts. A significant, unanticipated downturn in the major economies that the Target Business operates in or negative industry trends could require an increase in the estimated level of debts that will not be collected, which would negatively impact the operating results. The level of provision required is reviewed on an ongoing basis.

(e) ***Provisions***

Provisions are recognised when the Target Business has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. This obligation may be legal or constructive deriving from regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Target Business will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, taking into account all available information.

No provision is recognised if the amount of liability cannot be estimated reliably. In this case, the relevant information is disclosed in the notes to the Financial Information.

Given the uncertainties inherent in the estimates used to determine the amount of provision, actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates.

6 Revenue

The Target Business is principally engaged in the provision of mobile telecommunications services and products in the UK. An analysis of revenue of the Target Business is as follows:

	Year ended 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Telecommunication revenue	5,667	5,669	5,691

7 Staff costs

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Continuing operations			
Wages and salaries	383	364	307
Social security costs	40	38	36
Pension costs (note 25)	(35)	35	39
Share-based payments (note 11)	4	2	5
	392	439	387

(a) *Key management compensation*

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Salaries and short-term employee benefits	7.6	7.9	7.6
Long term incentive plans	—	—	0.3
Post employment benefits	0.1	0.2	0.1
Share-based payments	0.1	—	—
Termination benefits	—	—	0.7
	7.8	8.1	8.7

8 Profit before tax

Profit before tax is shown after crediting and charging the following items:

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Operating lease rental payments	136	54	52
Auditor's remuneration	2	1	1
Provision for (write back) estimated impairment losses for bad debts	(2)	(25)	12
Write down of inventories	1	—	—

9 Interest expenses and other finance costs

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Interest expenses to related parties	11	20	35
Other finance costs	18	13	15
	29	33	50

10 Tax

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Current tax - UK tax	99	101	102
Current tax - adjustments in respect of prior periods - UK tax	(112)	(13)	(29)
Current tax - non UK tax	5	1	—
Current tax - adjustments in respect of prior periods - non UK tax	1	(1)	—
Current tax	(7)	88	73
Deferred tax - origination and reversal of temporary differences	20	6	(3)
Deferred tax - adjustments in respect of prior periods	18	15	26
Deferred tax - effect of changes in tax rates	—	(5)	—
Deferred tax	38	16	23
Total tax	31	104	96
Less: Discontinued operations	(2)	1	—
	29	105	96

The corporation tax rate for the UK entities of the Target Business for the years ended 31 December 2012, 2013 and 2014 is 24.5%, 23.25% and 21.5% respectively.

In 2012, the UK corporation tax has been reduced from 24% to 23% with effect from 1 April 2013. Deferred tax assets and liabilities have been re-calculated during the year ended 31 December 2012 at the tax rate appropriate to when they are expected to reverse.

In 2013, the UK corporation tax has been reduced from 23% to 21% with effective from 1 April 2014 and further reduced to 20% with effective from 1 April 2015. These changes were enacted on 17 July 2013 and as a result, deferred tax assets and liabilities have been adjusted during the year ended 31 December 2013 with no significant impact on the Financial Information.

The differences between the expected tax charge of the Target Business calculated by applying the UK statutory tax rate to profit (losses) before tax for the years were as follows:

	Year ended 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Profit before tax from continuing operations	505	411	455
Profit (losses) before tax from discontinued operations	(647)	(82)	428
Profit (losses) before tax	(142)	329	883
Tax on profit (losses) at the rate of UK corporation tax of 24.5%, 23.25% and 21.5% for 2012, 2013 and 2014 respectively	(35)	77	190
Net (income) expenses not subject to tax/not deductible for tax purposes	160	29	(91)
Effect of changes in tax rates	—	(5)	—
Effect of foreign tax rates	(1)	2	—
Adjustments to tax in respect of prior periods	(93)	1	(3)
Tax charge for the year	31	104	96
Tax on discontinued operations	(2)	1	—
Tax charge for the year from continuing operations	29	105	96

11 Share-based payments

The costs of share options and awards are charged to the combined statements of comprehensive income over the vesting period, based upon the fair value of the share award or option at the award date adjusted for the likelihood of non-market vesting conditions being met under the share award or option plan.

The amounts of share based payment transactions with employees recognised in "Staff costs" for the year ended 31 December 2012, 2013 and 2014 are as follows:

	2012	**2013**	**2014**
	£m	*£m*	*£m*
Equity settled share based payments	4	2	5

12 Dividends

	2012	**2013**	**2014**
	£m	*£m*	*£m*
Dividends paid to the shareholders of the Target Business			
Interim, paid	469	1,100	1,044
Final, proposed	—	—	—
	469	1,100	1,044

The interim dividends of £469 million, £1,100 million and £1,044 million were declared, approved and paid by the Target Business during the years ended 31 December 2012, 2013 and 2014 respectively.

13 Fixed assets

	Land and buildings	Plant and equipment	Assets in course of construction	Total
	£m	*£m*	*£m*	*£m*
At 1 January 2012				
Cost	529	5,547	901	6,977
Accumulated depreciation	(346)	(3,892)	—	(4,238)
Net book value	183	1,655	901	2,739
Year ended 31 December 2012				
Opening net book value	183	1,655	901	2,739
Additions	—	592	523	1,115
Disposals	(68)	322	(729)	(475)
Depreciation charge for the year	(38)	(508)	—	(546)
Transfer between categories and disposal group classified as held for sale (note 21)	15	(40)	(15)	(40)
Exchange translation differences	—	(5)	—	(5)
Closing net book value	92	2,016	680	2,788
At 31 December 2012				
Cost	303	5,562	680	6,545
Accumulated depreciation	(211)	(3,546)	—	(3,757)
Net book value	92	2,016	680	2,788
Year ended 31 December 2013				
Opening net book value	92	2,016	680	2,788
Additions	—	88	500	588
Disposals	(10)	(29)	(2)	(41)
Depreciation charge for the year	(57)	(578)	—	(635)
Transfer between categories	63	666	(729)	—
Exchange translation differences	—	6	—	6
Transfer to disposal group classified as held for sale (note 21)	—	(177)	(29)	(206)
Closing net book value	88	1,992	420	2,500

	Land and buildings	Plant and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
At 31 December 2013				
Cost	303	5,658	420	6,381
Accumulated depreciation	(215)	(3,666)	—	(3,881)
Net book value	88	1,992	420	2,500
Year ended 31 December 2014				
Opening net book value	88	1,992	420	2,500
Additions	—	42	461	503
Depreciation charge for the year	(28)	(516)	—	(544)
Transfer between categories	33	494	(527)	—
Closing net book value	93	2,012	354	2,459
At 31 December 2014				
Cost	331	5,878	354	6,563
Accumulated depreciation	(238)	(3,866)	—	(4,104)
Net book value	93	2,012	354	2,459

14 Telecommunications licences

	2012	2013	2014
	£m	£m	£m
Net book value			
At 1 January	1,191	1,085	1,525
Additions	—	610	—
Amortisation for the year	(105)	(130)	(156)
Reclassifications	—	7	11
Transfer to disposal group classified as held for sale (note 21)	—	(48)	—
Exchange translation differences	(1)	1	—
At 31 December	1,085	1,525	1,380
Cost	4,142	4,648	4,648
Accumulated amortisation and impairment	(3,057)	(3,123)	(3,268)
	1,085	1,525	1,380

On 19 February 2013, Telefónica UK Ltd. ("Telefónica UK") successfully secured the licence to 20Mhz of 800Mhz spectrum which has been used by Telefónica UK to build a 4G mobile network in the UK. The Target Business paid a total of £550 million for two separate lots of the auction.

15 Goodwill

	£m
At 1 January 2012	3,470
Exchange translation differences	(28)
Transfer to disposal group classified as held for sale (note 21)	(43)
Impairment recognised	(655)
At 31 December 2012	2,744
Exchange translation differences	8
Transfer to disposal group classified as held for sale (note 21)	(375)
At 31 December 2013 and 2014	2,377

Impairment testing

Goodwill arises in relation to two cash-generating units ("CGUs"), being Telefónica UK and Telefónica Ireland Ltd. ("Telefónica Ireland").

	31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Telefónica UK	2,377	2,377	2,377
Telefónica Ireland	367	—	—
	2,744	2,377	2,377

Goodwill is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable. The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill is allocated from the acquisition date. If this recoverable amount is less than the carrying amount, an impairment loss is recognised.

The Target Business evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgement.

A goodwill valuation adjustment of £655 million related to the Target Business' operations in Ireland was recognised in 2012.

The recoverable amount of the Target Business' CGU has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period. The projected cash flows have been updated to reflect evolution in the demand for products and services. The pre-tax discount rate applied to cash flow projections is 6.1% and cash flows beyond the five-year period are extrapolated using a 1% growth rate.

Main assumptions used in calculating value in use

Once the business plans for the various CGUs are prepared, the Target Business calculates value in use. It takes certain variables, such as operating income margin and long-term capital expenditure, discount rates and perpetuity growth rates.

Operating income margin and long-term capital expenditure

The operating margin and long-term capital expenditure ratio used to calculate terminal value, expressed as a percentage of revenue, are based on the business plans approved for each CGU, as well as external estimates of trends in operating indicators, and the outlook for the various businesses and markets.

Discount rate

The discount rate, applied to measure free cash flow, is the weighted average cost of capital (WACC), determined by the weighted average cost of equity and debt according to the finance structure established for each CGU.

Perpetuity growth rate

Cash flow projections to the end of the asset's useful life are estimated using a rate of growth for the future years.

Terminal value is calculated from the projected cash flows in the period, taking as the perpetuity growth rate consensus estimates among analysts for each business and country based on the maturity of the industry depending on technology and the degree of development of each country.

The ranges of discount rate and perpetuity growth rates for the Target Business' main CGUs are as follows:

	Discount rate	**Perpetuity growth rate**
Year ended 31 December 2012	5.8% - 10.3%	0.7% - 1.1%
Year ended 31 December 2013	5.5% - 6.5%	0.7% - 1.2%
Year ended 31 December 2014	6.2%	1%

16 Other intangible assets

	Software	Others (included assets in course of construction)	Total
	£m	*£m*	*£m*
At 1 January 2012			
Cost	1,154	76	1,230
Accumulated amortisation	(1,074)	—	(1,074)
Net book value	80	76	156
Year ended 31 December 2012			
Opening net book value	80	76	156
Additions	3	151	154
Amortisation charge for the year	(83)	(10)	(93)
Exchange translation differences	2	(2)	—
Reclassification	63	(63)	—
Closing net book value	65	152	217
At 31 December 2012			
Cost	1,220	162	1,382
Accumulated amortisation	(1,155)	(10)	(1,165)
Net book value	65	152	217
Year ended 31 December 2013			
Opening net book value	65	152	217
Additions	49	14	63
Reclassification	—	(7)	(7)
Amortisation charge for the year	(89)	—	(89)
Exchange translation differences	—	6	6
Transfer to disposal group classified as held for sale (note 21)	—	(98)	(98)
Closing net book value	25	67	92
At 31 December 2013			
Cost	1,263	74	1,337
Accumulated amortisation	(1,238)	(7)	(1,245)
Net book value	25	67	92

	Software	Others (included assets in course of construction)	Total
	£m	*£m*	*£m*
Year ended 31 December 2014			
Opening net book value	25	67	92
Additions	—	110	110
Reclassification	76	(87)	(11)
Amortisation charge for the year	(67)	(30)	(97)
Exchange translation differences	1	1	2
Closing net book value	35	61	96
At 31 December 2014			
Cost	1,339	97	1,436
Accumulated amortisation	(1,304)	(36)	(1,340)
Net book value	35	61	96

17 Interests in joint ventures

The Target Business has a 33% interests in Weve Ltd which involved in the mobile messaging, advertising and loyalty programmes, and a 50% interests in Tesco Mobile Ltd which is operating as a virtual network operator. The Target Business' interests in Weve Ltd and Tesco Mobile Ltd are accounted for using the equity method in the combined financial information.

	2012	2013	2014
	£m	*£m*	*£m*
Interests in joint ventures	3	8	6

Summarised financial information of the joint ventures and reconciliation with the amounts of the interests in the Financial Information are set out below:

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Revenue	462	519	608
Expenses	(396)	(538)	(623)
Profit (losses) before tax	66	(19)	(15)
Tax	—	—	(1)
Profit (losses) after tax	66	(19)	(16)
Target Business' share of profits less losses of joint ventures	34	(6)	(7)
Current assets	165	220	269
Non-current assets	9	12	14
Current liabilities	(164)	(212)	(268)
Non-current liabilities	(3)	(1)	(1)
Equity	7	19	14
Target Business' interests in joint ventures	3	8	6

18 Cash and cash equivalents

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Cash deposits	846	310	139

Majority of the cash deposits as at 31 December 2012, 2013 and 2014 were funds deposited with Telfisa Global B.V. and Telefónica Finanzas S.A., wholly owned subsidiary companies of Telefónica S.A., whose principal activities are the provision of integrated cash management, consulting and financial support for Telefónica S.A. group companies. These deposits are repayable on demand.

19 Trade and other receivables

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Trade receivables	788	777	1,065
Less: provision for estimated impairment losses for bad debts	(184)	(159)	(171)
Trade receivables - net (note)	604	618	894
Other receivables	66	1	—
Amounts owed by related parties	187	107	128
Prepayments	390	466	473
Accrued income	220	180	170
Other assets	11	72	173
	1,478	1,444	1,838

Note: As at 31 December 2012, 2013 and 2014, trade receivables of approximately £441 million, £459 million and £750 million respectively were neither impaired or past due. Majority of the trade receivables not yet past due are aged within 60 days. The ageing analysis of trade receivables which were past due but not provided for is as follows:

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Past due 1-180 days	120	81	101
Past due 180-360 days	19	28	8
Past due over 360 days	24	50	35
	163	159	144

Movements on provision for estimated impairment losses for bad debts are as follows:

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
At 1 January	186	184	159
Additions	182	201	170
Write back	(184)	(226)	(158)
At 31 December	184	159	171

Additions and write back of provision for estimated impairment losses for bad debts have been included in “Other operating expenses” in the combined statements of comprehensive income.

20 Inventories

Inventories represent handsets held for sale. As at 31 December 2012, 2013 and 2014, the amount of inventories carried at net realisable value was approximately £56 million, £68 million and £50 million respectively.

21 Assets held for sale

(i) On 28 February 2013, an agreement had been reached to dispose of the Target Business' 100% interest in the UK consumer broadband and fixed-line telephony business to British Sky Broadcasting Limited. Under the terms of the agreement, British Sky Broadcasting Limited will pay a consideration of £180 million for 100% of the interest in the UK customer broadband and fixed-line telephony business. An additional contingent amount, not exceeding £20 million, may also be payable dependent upon the successful delivery and completion of the customer migration process. The disposal was completed on 30 April 2013, resulting in a gain of £67 million recognised in the combined statement of comprehensive income for the year ended 31 December 2013. In the combined financial information as at 31 December 2012, the net assets are presented as assets held for sale.

(ii) On 24 June 2013, an agreement was entered into with the Group to dispose of 100% stake in Telefónica Ireland for a total consideration of €780 million in cash and an additional deferred payment of €70 million dependent upon the achievement of agreed financial objectives. At 15 July 2014, the transaction was completed after the relevant regulatory authorisations had been obtained. The Target Business received a total consideration of €780 million in cash and the additional deferred payment of €70 million has been recorded in "Other assets".

In the Financial information, the sale has been accounted for based on the net book value of Telefónica Ireland's net assets at the time of disposal. Impairment losses of £655 million and £72 million were recognised in the combined statements of comprehensive income for the years ended 31 December 2012 and 2013 respectively. A net gain on disposal of £431 million has been recognised in the combined statements of comprehensive income for the year ended 31 December 2014.

	Year ended 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Revenue	516	476	205
Expenses	(1,163)	(558)	(208)
Losses before tax	(647)	(82)	(3)
Tax	(2)	1	—
Losses after tax	(649)	(81)	(3)
Gain on disposal	—	—	431
Profit (losses) after tax from discontinued operations	(649)	(81)	428

The net cash flows incurred by Telefónica Ireland are as follows:

	Year ended 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Operating	88	37	38
Investing	(151)	(44)	(20)
Financing	(470)	(315)	(29)
Net cash outflow	(533)	(322)	(11)

(iii) The major classes of assets and liabilities of the Target Business' 100% interest in the UK consumer broadband and fixed-line telephony business and 100% stake in Telefónica Ireland, which were classified as assets/liabilities held for sale as at 31 December 2012 and 31 December 2013, respectively, were as follows:

	31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Intangible assets (including goodwill)	43	449	—
Fixed assets	40	206	—
Inventories	—	3	—
Trade and other receivables	5	123	—
Cash and cash equivalents	—	37	—
Non-current assets held for sale	88	818	—
Borrowings	—	19	—
Trade and other payables	4	148	—
Non-current liabilities held for sale	4	167	—

22 Trade and other payables

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Trade payables	739	769	862
Amounts owed to related parties	471	595	960
Other taxation and social security	149	212	—
Other payables	249	196	292
Accrued expenses	1,055	929	930
Provisions (note 26(c))	6	37	17
Deferred income	218	196	197
	2,887	2,934	3,258

Majority of the trade payables are aged within 360 days.

23 Other debts

	2012	2013	2014
	£m	*£m*	*£m*
Other current unsecured debts:			
Obligations under finance leases (note a)	19	72	24
Non-current unsecured debts:			
Obligations under finance leases (note a)	53	—	—
	72	72	24

(a) ***Obligations under finance leases***

The Target Business' minimum lease payments under finance leases fall due as follows:

	Minimum lease payments	Finance charges	Present value
	£m	*£m*	*£m*
At 31 December 2012			
Within one year	19	—	19
Between one and five years	57	(4)	53
	76	(4)	72

	Minimum lease payments	Finance charges	Present value
	£m	£m	£m
At 31 December 2013			
Within one year	73	(1)	72
Between one and five years	—	—	—
	73	(1)	72

	Minimum lease payments	Finance charges	Present value
	£m	£m	£m
At 31 December 2014			
Within one year	24	—	24
Between one and five years	—	—	—
	24	—	24

24 Deferred tax

	As at 31 December		
	2012	2013	2014
	£m	£m	£m
Deferred tax assets	1	3	2
Deferred tax liabilities	(42)	(37)	(54)
	(41)	(34)	(52)

Movements in net deferred tax liabilities are summarised as follows:

	2012	2013	2014
	£m	£m	£m
At 1 January	(17)	(41)	(34)
Net charge to the income statement (note 10)	(38)	(16)	(23)
Net credit to other comprehensive income	14	25	5
Transfer to disposal group classified as held for sale (note 21)	—	(3)	—
Exchange translation differences	—	1	—
At 31 December	(41)	(34)	(52)

The deferred tax assets have been offset against deferred tax liabilities where there is a legally enforceable right to do so and they relate to income taxes levied by the same taxation authority on either the same taxable entity or different entities which intend to settle current tax assets and liabilities on a net basis.

The movements in deferred tax assets and liabilities during the years ended 31 December 2012, 2013 and 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets/(liabilities)	**Accelerated depreciation allowances**	**Others**	**Total**
	£m	*£m*	*£m*
At 1 January 2012	(32)	—	(32)
Charge to the income statement	(8)	—	(8)
At 31 December 2012	(40)	—	(40)
Exchange translation differences	1	—	1
Credit (charge) to the income statement	15	(16)	(1)
At 31 December 2013	(24)	(16)	(40)
Charge to the income statement	(6)	(3)	(9)
At 31 December 2014	(30)	(19)	(49)

Deferred tax assets/(liabilities)	**Employee share-based payments**	**Defined benefit pension**	**Others**	**Total**
	£m	*£m*	*£m*	*£m*
At 1 January 2012	7	2	6	15
Charge to the income statement	—	(30)	—	(30)
Credit (charge) to other comprehensive income	(5)	19	—	14
At 31 December 2012	2	(9)	6	(1)
Charge to the income statement	—	(12)	(3)	(15)
Credit to other comprehensive income	1	24	—	25
Transfer to disposal group classified as held for sale (note 21)	—	—	(3)	(3)
At 31 December 2013	3	3	—	6
Charge to the income statement	(1)	(13)	—	(14)
Credit to other comprehensive income	—	5	—	5
At 31 December 2014	2	(5)	—	(3)

25 Pension plan

The Target Business operates a number of pension schemes, being either defined benefit or defined contribution arrangements.

The total (credit) charge included in "Staff costs" in the combined statements of comprehensive income for the Target Business' pension schemes are as follows:

	Year ended 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Defined benefit schemes	(50)	1	2
Defined contribution schemes	15	34	37
	(35)	35	39

The Telefónica Pension Plan

The Telefónica Pension Plan ("the Plan") provides the pension benefits for the majority of UK employees of the Target Business and is divided into defined contribution and defined benefit sections. The sponsoring employer of the scheme is O_2 UK.

With effect from 28 February 2013 the defined benefit sections of the Plan closed to new entrants and further benefit accrual. Members' defined benefit pensions will continue to be increased in deferment by reference to the consumer prices index but will not retain the link to any future increases in salary. Upon closure, members of the defined benefit sections of the Plan were given the option to become members of the defined contribution section of the Plan. The defined contribution sections of the Plan remain open to new entrants and further accrual. The assets of the Plan are held independently of the Target Business' finances.

Actuarial valuation

A full valuation of the defined benefit sections of the Plan was undertaken as at 30 September 2011 by a suitably qualified independent actuary. The valuation used the projected unit method and set a future funding plan to ensure that contributions to the Plan meeting future liabilities (until closure at 28 February 2013) and past service liabilities are adequately funded. A full valuation with an effective date of 30 September 2014 is currently underway but has not yet been finalised.

The 2011 valuation was completed in line with the current investment strategy of the plan which is predominantly a corporate bond basis initiated following the 2008 valuation. Following the 2011 valuation, the ongoing contribution rate was increased to 33.8% of defined benefit member's payroll (note only payable until Plan closure on 28 February 2013). Based on the difference between the September 2011 pension asset value and the technical provisions a past service deficit of £164 million resulted. It was agreed that this deficit will be recovered by additional contributions over the period to 2016 totalling £163 million (2012: £40.5 million (paid), 2013: £42.1 million (paid), 2014: £40 million (paid), 2015: £25 million (paid), 2016: £16 million). These contributions are in line with the schedule of contributions contract dated 13 September 2013.

Based on the current schedule of contributions, it is anticipated that the Target Business will pay no contribution to the Plan in respect of the Plan's funded defined benefit sections over 2015 as payment of the £25 million contribution by 7 January 2015 was made during 2014. Note a new scheme of contributions is expected to be agreed in 2015 and subsequent years. The total payment made during the year ended 31 December 2012, 2013 and 2014 is £40.5 million, £42.1 million and £65 million respectively.

Disclosures

The actuarial valuation of the Plan as at 30 September 2011 has been updated to 31 December 2012 by an independent qualified actuary. The defined benefit liabilities have been measured using the projected unit method. Plan assets are stated at fair value.

Movements in the present value of the various plans' (funded and unfunded) defined benefit obligations for the years ended 31 December 2012, 2013 and 2014 were as follows:

	Funded	**Unfunded**	**Total**
	£m	*£m*	*£m*
At 1 January 2012	810	5	815
Total current service cost	20	—	20
Interest expense	40	—	40
Vested past service costs	(73)	—	(73)
Actuarial loss on demographic assumptions	8	—	8
Actuarial loss on financial assumptions	121	1	122
Actuarial loss on experience adjustments	12	—	12
Benefits paid	(15)	—	(15)
At 31 December 2012	923	6	929

	Funded	Unfunded	Total
	£m	*£m*	*£m*
At 1 January 2013	923	6	929
Total current service cost	3	—	3
Interest expense	42	1	43
Vested past service costs	(3)	—	(3)
Actuarial loss on demographic assumptions	27	—	27
Actuarial loss on financial assumptions	64	—	64
Benefits paid	(19)	—	(19)
At 31 December 2013	1,037	7	1,044
At 1 January 2014	1,037	7	1,044
Interest expense	46	—	46
Actuarial gain on demographic assumptions	(25)	—	(25)
Actuarial loss on financial assumptions	160	—	160
Actuarial gain on experience adjustments	(17)	—	(17)
Benefits paid	(18)	—	(18)
At 31 December 2014	1,183	7	1,190

Movements in fair value of the various plans' (funded and unfunded) defined benefit scheme assets for the years ended 31 December 2012, 2013 and 2014 were as follows:

	Funded	Unfunded	Total
	£m	*£m*	*£m*
At 1 January 2012	811	—	811
Interest income	44	—	44
Return on plan assets in excess of interest income	69	—	69
Employer contributions	66	—	66
Scheme expenses paid	(3)	—	(3)
Benefits paid	(15)	—	(15)
At 31 December 2012	972	—	972

	Funded	Unfunded	Total
	£m	*£m*	*£m*
At 1 January 2013	972	—	972
Interest income	46	—	46
Return on plan assets in excess of interest income	(17)	—	(17)
Employer contributions	50	—	50
Scheme expenses paid	(1)	—	(1)
Benefits paid	(19)	—	(19)
At 31 December 2013	1,031	—	1,031
At 1 January 2014	1,031	—	1,031
Interest income	48	—	48
Return on plan assets in excess of interest income	96	—	96
Employer contributions	65	—	65
Scheme expenses paid	(2)	—	(2)
Benefits paid	(18)	—	(18)
At 31 December 2014	1,220	—	1,220

The amounts included in the combined statements of financial position as at 31 December 2012, 2013 and 2014 arising from obligations in respect of the defined benefit sections of the various plans, as well as the analysis of the schemes' assets, are as follows:

	Funded	Unfunded	Total
	£m	*£m*	*£m*
At 31 December 2012			
Fair value of assets comprises:			
- Equities	198	—	198
- Corporate bonds	769	—	769
- Cash and net current assets	5	—	5
Fair value of assets	972	—	972
Present value of defined benefit obligations	(923)	(6)	(929)
Net asset (liability) recognised in the combined statements of financial position	49	(6)	43

	Funded	Unfunded	Total
	£m	*£m*	*£m*
At 31 December 2013			
Fair value of assets comprises:			
- Equities	216	—	216
- Corporate bonds	815	—	815
Fair value of assets	1,031	—	1,031
Present value of defined benefit obligations	(1,037)	(7)	(1,044)
Net liability recognised in the combined statements of financial position	(6)	(7)	(13)
At 31 December 2014			
Fair value of assets comprises:			
- Equities	256	—	256
- Corporate bonds	938	—	938
- Cash and net current assets	26	—	26
Fair value of assets	1,220	—	1,220
Present value of defined benefit obligations	(1,183)	(7)	(1,190)
Net asset (liability) recognised in the combined statements of financial position	37	(7)	30

Plan assets are valued by reference to quoted market prices in active markets. No assets of the Target Business are held by the Plan.

The amounts recognised in the combined statements of comprehensive income for the years ended 31 December 2012, 2013 and 2014 in respect of defined benefit schemes are as follows:

	For the year ended 31 December 2012		
	Funded	Unfunded	Total
	£m	*£m*	*£m*
Analysis of the amount charged (credited) to profit before tax:			
Current service cost (employers)	20	—	20
Past service cost (employers)	(73)	—	(73)
Scheme administration expenses	3	—	3
	(50)	—	(50)
Analysis of the amount credited to interest income:			
Net interest income on the defined benefit liability (asset)	(4)	—	(4)
Analysis of the amount recognised in other comprehensive income:			
Return on plan assets in excess of interest income	(69)	—	(69)
Actuarial loss on demographic assumptions	8	—	8
Actuarial loss on financial assumptions	121	1	122
Actuarial loss on experience adjustment	12	—	12
	72	1	73

	For the year ended 31 December 2013		
	Funded	Unfunded	Total
	£m	*£m*	*£m*
Analysis of the amount charged (credited) to profit before tax:			
Current service cost (employers)	3	—	3
Past service cost (employers)	(3)	—	(3)
Scheme administration expenses	1	—	1
	1	—	1
Analysis of the amount charge (credited) to interest income:			
Net interest income on the defined benefit liability (asset)	(4)	1	(3)
Analysis of the amount recognised in other comprehensive income:			
Interest income in excess of return on plan assets	17	—	17
Actuarial loss on demographic assumptions	27	—	27
Actuarial loss on financial assumptions	64	—	64
	108	—	108

	For the year ended 31 December 2014		
	Funded	Unfunded	Total
	£m	*£m*	*£m*
Analysis of the amount charged (credited) to profit before tax:			
Current service cost (employers)	—	—	—
Past service cost (employers)	—	—	—
Scheme administration expenses	2	—	2
	2	—	2
Analysis of the amount credited to interest income:			
Net interest income on the defined benefit liability (asset)	(2)	—	(2)
Analysis of the amount recognised in other comprehensive income:			
Return on plan assets in excess of interest income	(96)	—	(96)
Actuarial gain on demographic assumptions	(25)	—	(25)
Actuarial loss on financial assumptions	160	—	160
Actuarial gain on experience adjustment	(17)	—	(17)
	22	—	22

The main assumptions adopted for the plans (funded and un-funded) are as follows:

	Year ended 31 December		
	2012	2013	2014
	Funded and unfunded	Funded and unfunded	Funded and unfunded
	%	%	%
Nominal rate of increase in salaries	4.2	N/A	N/A
Nominal rate of increase of pensions in payment:			
- Pension increases with inflation	3.2	3.4	3.2
- Pension increases with inflation limited to 5% per annum	3.1	3.25	3.05
Discount rate	4.6	4.5	3.7
Inflation assumption			
- RPI	3.2	3.4	3.2
- CPI	2.2	2.4	2.2
Life Expectancy			
- Male (current age 40)	88.2	89.7	88.8
- Male (current age 60)	86.8	88.3	87.3
- Female (current age 40)	90.5	91.1	91.1
- Female (current age 60)	89.3	89.5	89.6

At 31 December 2012, 2013 and 2014, the weighted average duration of the defined benefit obligation of the funded plan was 23 years.

The financial position and results reported are subject to the accuracy of the methods assumptions used.

A reduction in the discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the discount rate will have an opposite effect of similar magnitude.

An increase in the inflation rate will increase the assessed value of liabilities as a higher value is placed on benefits. A reduction in the inflation rate will have an opposite effect of similar magnitude.

There is also uncertainty around the future life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The following table summarises the estimated sensitivity of the disclosed liability value to changes in the principal assumptions that have been used in the calculations:

Change in assumption	Liabilities increase by
As at 31 December 2013	
Decrease discount rate by 0.1%	£24 million
Increase inflation rate by 0.1%	£22 million
Increase life expectancy by 1 year	£19 million
As at 31 December 2014	
Decrease discount rate by 0.25%	£70 million
Increase inflation rate by 0.25%	£61 million
Increase life expectancy by 1 year	£28 million

Other pension plans

The Target Business operates an un-funded defined benefit scheme in the UK. The assumptions adopted for the unfunded arrangement are consistent with those used for the funded portion of the Plan. The liabilities of this scheme are included within the reporting of the Plan.

The Target Business also operates defined contribution schemes in the Ireland and in the UK. The assets of these defined contribution arrangements are held separately from those of the Target Business in independently administered funds.

26 Other non-current liabilities

	As at 31 December		
	2012	**2013**	**2014**
	£m	*£m*	*£m*
Amounts owed to related parties (note a)	—	590	590
Other payables (note b)	24	—	—
Provisions (note c)	76	72	92
	100	662	682

(a) ***Amounts owed to related parties***

As at 31 December 2013 and 2014, the amounts owed to related parties represent a single sterling denominated loan from Telfin Ireland Limited with an interest rate of 3.25% and has a maturity date of 30 June 2018. The purpose of the loan was to assist with the acquisition of 4G spectrum in 2013.

(b) ***Other payables***

As at 31 December 2012, other payables comprises of the long term spectrum licence creditor related to the acquisition of spectrum in Ireland, which has then be disposed in 2014 (note 21).

(c) ***Provisions***

A breakdown of the Target Business' current and non-current provisions is as follows:

	Restructuring	**Asset retirement obligation**	**Other provisions**	**Total**
	£m	*£m*	*£m*	*£m*
At 1 January 2012	44	28	1	73
Additions	2	55	4	61
Utilisations	(21)	(1)	(3)	(25)
Write back	(6)	(21)	—	(27)
At 1 January 2013	19	61	2	82
Additions	45	2	41	88
Utilisations	(37)	—	(14)	(51)
Write back	(10)	—	—	(10)
At 1 January 2014	17	63	29	109
Additions	1	42	4	47
Utilisations	—	(2)	(30)	(32)
Write back	(9)	(6)	—	(15)
At 31 December 2014	9	97	3	109

	2012	**2013**	**2014**
	£m	*£m*	*£m*
Analysed as:			
Current portion	6	37	17
Non-current portion	76	72	92
	82	109	109

Restructuring provision

The restructuring provision mainly relates to residual onerous lease commitments, after taking into account existing sub-lease arrangements and redundancy of personnel. Non-current provisions are expected to be extinguished within five years.

Asset retirement obligation provision

The Target Business has certain legal obligations relating to the restoration of leased property to its original condition at the end of the lease term. This obligation relates principally to the Target Business' share of obligation for assets held in Cornerstone Telecommunications Infrastructure Ltd, a joint operation with Vodafone, and to mast sites.

The provision is based on assumptions covering the discount rate, expected lease renewals and the expected cost of restoring the site. The payment dates of these asset retirement obligation costs are uncertain but are currently anticipated to be over the next 30 years.

27 Commitments

The outstanding commitments of the Target Business not provided for in the combined financial information are as follows:

(a) ***Capital commitments***

	2012	**2013**	**2014**
	£m	*£m*	*£m*
Fixed assets			
Contracted but not provided for	469	2,809	2,535
Authorised but not contracted for	—	—	—
	469	2,809	2,535

(b) ***Operating lease commitments***

The Target Business has future aggregate minimum lease payments under non-cancellable operating leases in respect of various offices, shops, vehicles and mast sites are as follows. These leases have various terms and renewal rights.

	2012	2013	2014
	£m	*£m*	*£m*
Not later than one year	84	99	99
Later than one year but not later than five years	217	253	287
Later than five years	292	190	239
	593	542	625

The total future aggregate minimum sublease payments expected to be received by the Target Business under non-cancellable subleases at 31 December 2012, 2013 and 2014 are £40 million, £44 million and £46 million respectively.

28 Related party transactions

During the years ended 31 December 2012, 2013 and 2014, the Target Business entered into transactions with related parties and the income, expenses and related receivables from and payables to are as follows:

	Year ended 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Income			
Revenue earned from related parties	33	37	56
Revenue earned from joint ventures	39	96	128
Interest and other income from related parties	5	5	3
Expenses			
Management fees to related parties	(73)	(73)	(58)
Brand fee paid to related parties	(25)	(25)	(25)
Services and supplies provided by related parties	(195)	(164)	(136)
Interest expenses to related parties	(11)	(20)	(35)
Other expenses to related parties	(5)	—	—

	As at 31 December		
	2012	2013	2014
	£m	*£m*	*£m*
Receivables from			
Related parties of the Target Business	84	89	109
Joint ventures	3	16	18
Joint operations	60	—	—
	147	105	127
Payables to			
Related parties of the Target Business	(386)	(1,154)	(1,535)
Joint ventures	(18)	(16)	(16)
Joint operations	(44)	—	—
	(448)	(1,170)	(1,551)

29 Contingencies

The Target Business has no contingent liabilities or guarantees on which material losses are expected. The Target Business has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations.

The management of the Target Business does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the Target Business.

30 Principal subsidiaries, joint ventures and joint operation

Name	Place of incorporation	Interest held			Principal activities
		2012	2013	2014	
Subsidiaries					
*Telefónica Europe Plc	England and Wales	100%	100%	100%	Intermediate holding company
*mmO_2 plc	England and Wales	100%	100%	100%	Intermediate holding company
*O_2 Holdings Limited	England and Wales	100%	100%	100%	Intermediate holding company
*Telefónica UK Ltd	England and Wales	100%	100%	100%	Mobile cellular telephone system provider and operator
*Giffgaff Limited	England and Wales	100%	100%	100%	Mobile communications network
*O_2 Networks Limited	England and Wales	100%	100%	100%	Intermediate holding company

Name	Place of incorporation	Interest held			Principal activities
		2012	2013	2014	
*O_2 Communications Limited	England and Wales	100%	100%	100%	Intermediate holding company
*O_2 Cedar Limited	England and Wales	100%	100%	100%	Intermediate holding company
*O_2 Unify Limited	England and Wales	100%	100%	100%	IT and Communication solutions
*Cellular Radio Limited	England and Wales	100%	100%	100%	Active non trading company
*Telefónica Ireland Ltd	Ireland	100%	100%	—	Mobile cellular telephone system provider and operator
*Telefónica Europe People Services Ltd	Ireland	100%	100%	100%	European HR services, support functions and administrative provider
#Telefónica UK Pension Trustee Ltd	England and Wales	100%	100%	100%	Corporate trustee of the O_2 Pension Plan
Joint ventures					
^Digital Mobile Spectrum Limited	England and Wales	25%	25%	25%	Provision of services in relation to spectrum auction obligations
+Weve Ltd (note)	England and Wales	33%	33%	33%	Development mobile services arrangement with Vodafone and EE
¤Tesco Mobile Ltd	England and Wales	50%	50%	50%	Mobile cellular telephone distributor arrangement with Tesco
Joint operation					
¤Cornerstone Telecommunications Infrastructure Ltd	England and Wales	50%	50%	50%	Mobile infrastructure network arrangement with Vodafone

Note: On 1 May 2015, the Target Business acquired all remaining shares of Weve Limited and it became a wholly owned subsidiary.

* Entities audited by Ernst & Young LLP

¤ Entities audited by PricewaterhouseCoopers LLP

\+ Entity audited by KPMG LLP

^ Entity audited by BDO LLP

\# Entity was entitled to exemption from audit under section 480 of Companies Act 2006.

31 TRANSITION TO HKFRS — 1 JANUARY 2012

HKFRS 1 "First-time adoption of HKFRSs" sets out the transitional rules which must be applied for the first time. Accounting policies, in accordance with HKFRS, are required to be selected and applied retrospectively. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. The Target Business has not applied any of the optional first-time adoption exemptions in HKFRS 1.

The Target Business has not previously prepared or reported any consolidated or combined financial information in accordance with any other generally accepted accounting principles ("GAAP"). Consequently, no reconciliation between financial information prepared under any previous GAAP and this Financial Information is presented herein.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Business or the entities within the Target Business in respect of any period subsequent to 31 December 2014 up to the date of this report.

No dividend or distribution has been declared or made by Target Business in respect of any period subsequent to 31 December 2014.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), which has been prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Acquisition as if it had taken place on 31 December 2014.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2014 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set out in the 2014 annual report of the Company and other financial information included elsewhere in this circular.

I. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2014

	Group	Target Business	Pro Forma Adjustments			Total
			Note 1	Note 2	Note 3	
			Payment of the Initial Purchase Price	*Recognition of goodwill*	*Transaction costs*	
	HK$ millions	*HK$ millions*	*HK$ millions*	*HK$ millions*	*HK$ millions*	*HK$ millions*
ASSETS						
Non-current assets						
Fixed assets	173,234	29,508	—	—	—	202,742
Investment properties	66,211	—	—	—	—	66,211
Leasehold land	8,513	—	—	—	—	8,513
Telecommunications licences	81,602	16,560	—	—	—	98,162
Goodwill	39,132	28,524	—	67,908	—	135,564
Brand names and other rights	16,233	1,152	—	—	—	17,385
Associated companies	126,416	—	—	—	—	126,416
Interests in joint ventures	119,433	72	—	—	—	119,505
Deferred tax assets	19,203	24	—	—	—	19,227
Pension assets	—	444	—	—	—	444
Other non-current assets	7,139	2,964	—	—	—	10,103
Liquid funds and other listed investments	15,141	—	—	—	—	15,141
	672,257	79,248				819,413
Current assets						
Cash and cash equivalents	125,318	1,668	(5,760)	—	—	121,226
Trade and other receivables	66,576	22,056	—	—	—	88,632
Inventories	19,284	600	—	—	—	19,884
	211,178	24,324				229,742
Current liabilities						
Trade and other payables	87,139	39,096	—	—	2,640	128,875
Bank and other debts	42,281	288	—	—	—	42,569
Current tax liabilities	3,005	180	—	—	—	3,185
	132,425	39,564				174,629
Net current assets (liabilities)	78,753	(15,240)				55,113
Total assets less current liabilities	751,010	64,008				874,526
Non-current liabilities						
Bank and other debts	205,332	—	72,000	—	—	277,332
Interest bearing loans from non-controlling shareholders	8,000	—	—	—	—	8,000
Deferred tax liabilities	11,213	648	—	—	—	11,861
Pension obligations	3,083	84	—	—	—	3,167
Other non-current liabilities	4,320	8,184	—	12,000	—	24,504
	231,948	8,916				324,864
Net assets	519,062	55,092				549,662

II. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The assets and liabilities of the Group have been extracted from the audited consolidated statement of financial position of the Company as at 31 December 2014 as set out in the 2014 annual report of the Company.

The assets and liabilities of the Target Business have been derived from the audited combined statement of financial position of the Target Business as at 31 December 2014 as set out in Appendix II to this circular translated at an exchange rate of 1 GBP : 12.0 HK$.

On 25 March 2015, the Purchaser and MergeCo (each an indirect wholly owned subsidiary of the Company as at the date of this circular) entered into the Share Purchase Agreement with the Vendor pursuant to which the Purchaser has conditionally agreed to purchase the entire issued share capital of O_2 UK for an aggregate cash purchase price of: (i) £9,250 million (equivalent to approximately HK$111,000 million), which is subject to adjustment and payable at Completion by the Purchaser (the "Initial Purchase Price"); and (ii) deferred upside interest sharing payments of up to a further £1,000 million in aggregate (equivalent to approximately HK$12,000 million), payable by MergeCo, or another party procured by MergeCo, after the cumulative cash flow of the combined **3** UK Business and O_2 UK Business has reached an agreed threshold (the "Upside Payment") ((i) and (ii) together, the "Consideration").

In accordance with Hong Kong Financial Reporting Standard 3 "Business Combination" ("HKFRS 3"), the Acquisition is accounted for as a business combination. Accordingly, the identifiable assets and liabilities of the O_2 UK Business will be accounted for in the consolidated financial statements of the Company at fair values estimated by the Directors.

On 8 May 2015, the Company and MergeCo entered into a Co-Investment Subscription Agreement with the Co-Investors pursuant to which the Co-Investors have conditionally agreed to pay cash of up to approximately £2,770 million (equivalent to approximately HK$33,240 million), payable on or about the date of completion of the Co-Investment Subscription, to subscribe for ordinary shares in MergeCo, representing approximately 32.98% of the issued share capital of MergeCo at completion. Upon completion of the Co-Investment Subscription, MergeCo will hold the combined business of the **3** UK Business and the O_2 UK Business, and will be indirectly held as to approximately 67.02% by the Company and approximately 32.98% by the Co-Investors.

In accordance with Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements" ("HKFRS 10"), the Co-Investment Subscription is accounted for as a reduction in equity interest in a subsidiary. MergeCo will at completion of the Co-Investment Subscription remain a subsidiary of the Company. As the Co-Investment Subscription will not result in MergeCo ceasing to be controlled by the Company, no profit or loss will be realised on the Co-Investment Subscription in the consolidated financial statements of the Company.

Pro Forma Adjustments

(1) ***Payment of the Initial Purchase Price***

For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the Initial Purchase Price had been settled in its full amount of £9,250 million, with no adjustments, on 31 December 2014 and the settlement had been funded by:

(i) a £6,000 million (equivalent to approximately HK$72,000 million) bridge facility that the Purchaser entered into with HSBC Bank plc as if this bridge facility had been drawn down by the Group as at 31 December 2014;

(ii) net cash proceeds of approximately £2,770 million (equivalent to approximately HK$33,240 million) from the Co-Investors as if the Co-Investment Subscription and the settlement had taken place on 31 December 2014; and

(iii) internal cash resource of the Group of approximately £480 million (equivalent to approximately HK$5,760 million).

The pro forma adjustment represents the payment of the Initial Purchase Price in the manner described above.

(2) ***Recognition of goodwill***

For the purpose of the Unaudited Pro Forma Financial Information, the carrying values of the assets and liabilities of the Target Business as at 31 December 2014 were assumed to be their provisional fair values at that date, and the maximum amount of £9,250 million and £1,000 million respectively for the Initial Purchase Price and the Upside Payment had been used in the calculation of goodwill arising from the Acquisition. In the preparation of the Unaudited Pro Forma Financial Information, consistent policies have been applied for the purpose of assessing impairment of goodwill under Hong Kong Accounting Standard 36 "Impairment of Assets". The Directors are not aware of any indications that an impairment of the Enlarged Group's goodwill is required after considering the nature, prospects, financial condition and business risks of the Enlarged Group.

The pro forma adjustment represents the excess amount of the Consideration over the assets and liabilities of the O_2 UK Business recognised as goodwill.

(3) ***Transaction costs***

The pro forma adjustment represents the estimated amount payable for cost and expenses for the Acquisition.

Since the actual amount payable for the Initial Purchase Price and the Upside Payment, the fair values of the identifiable assets and liabilities of the O_2 UK Business at the date of completion of the

Acquisition and/or the actual amount payable for the cost and expenses for the Acquisition may be substantially different from the amounts used in the preparation of the Unaudited Pro Forma Financial Information, the amounts to be recognised in connection with the Acquisition may be different from the amount presented in the pro forma adjustments above.

No other adjustments have been made to reflect any trading results or other transactions of the Group or the Target Business entered into subsequent to 31 December 2014. In particular, the Unaudited Pro Forma Financial Information has not taken into account the Merger Proposal and/or the Spin-off Proposal as disclosed in the joint announcements of Cheung Kong (Holdings) Limited and the Company dated 9 January 2015 and CK Hutchison, CK Global Investments Limited and the Company dated 8 May 2015, the acquisition of Eversholt Rail Group by CK Investments S.a r.l, which is jointly owned by CKI and Cheung Kong (Holdings) Limited as disclosed in the announcement of CKI dated 20 January 2015, and the payment of second interim dividend in lieu of final dividend of HK$7,482 million by the Company on 15 April 2015.

2. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

TO THE DIRECTORS OF HUTCHISON WHAMPOA LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hutchison Whampoa Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities at 31 December 2014 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-5 of the circular dated 2 June 2015 (the "Circular"), in connection with the proposed acquisition by the Group of the Target Business via the purchase of the entire share capital of O_2 UK, following a reorganisation of the Target Business to be executed prior to completion. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-5. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2014 as if the Acquisition had taken place at 31 December 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the consolidated financial statements of the Group for the year ended 31 December 2014, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA. For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information. The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition as at 31 December 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

— The related pro forma adjustments give appropriate effect to those criteria; and

— The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 2 June 2015

MANAGEMENT DISCUSSION AND ANALYSIS ON THE O_2 UK BUSINESS

Set out below is the management discussion and analysis on the O_2 UK Business for the three years ended 31 December 2012, 2013 and 2014.

A. For the year ended 31 December 2014 (and as compared to the year ended 31 December 2013)

Operations review

The O_2 UK Business' revenue for the year ended 31 December 2014 was £5,691 million (2013: £5,669 million). The O_2 UK Business' profit before interest and tax from the continuing operations for the year ended 31 December 2014 was £487 million (2013: £430 million).

Capital expenditure was £731 million for the year ended 31 December 2014 (2013: £1,261 million), which represents more than a 40% year-on-year decrease, as a consequence of the acquisition of 4G spectrum for £550 million in 2013.

Operating cash flow totalled £914 million in 2014 (2013: £1,247 million), due to a higher investment in working capital.

At the end of 2014, the main mobile operating performance highlights of the O_2 UK Business were:

- **Customer numbers** — The O_2 UK Business' total mobile customer base increased to reach 24.5 million (an increase of 3.8% year-on-year), driven by continued growth in the contract customer segment of 6.5% year-on-year. The prepay customer base remained broadly stable year-on-year at 10.76 million (declined by 1.8% in 2013). Mobile net additions stood at 830,171 in 2014, which was driven by the strong net addition of 833,658 postpay customers (though this was partly offset by a decrease in the number of prepay net additions by 3,487 customers). At the end of 2014, contract customers represented 56.0% of the total customer base (a 1.5% increase year-on-year) (2013: 54.5%).

- **Smartphone penetration** — Smartphone penetration in the UK reached 52% as at 31 December 2014 (up 3% year-on-year to 11.3 million customers). 4G network deployment reached 58% of outdoor population coverage as at 31 December 2014, with 4G enabled customers representing 19% of the mobile customer base.

- **Average revenue per user** — Total ARPU in 2014 declined by 8.8% year-on-year to £15.18, and excluding the impact of "O_2 Refresh", total ARPU decreased by 2.5% year-on-year.

- **Churn** — Churn totalled 1.9% in 2014 (a decrease of 0.4% year-on-year), and contract churn remained at 1.0% for the year.

Liquidity and financial resources

The O_2 UK Business did not have any external borrowings except for obligations under finance leases as at 31 December 2014. The operation is generally self-funded, and otherwise funded by the larger Telefónica S.A. group when needed. There were no committed borrowing facilities as at 31 December 2014. Accordingly, no external gearing ratio was applicable to the O_2 UK Business as at 31 December 2014.

Borrowings

As at 31 December 2014 and 31 December 2013, the O_2 UK Business did not have any external borrowings except for obligations under finance leases. Included in other non-current liabilities, there is an amount owed to related parties as at 31 December 2014 of £590 million (2013: £590 million), which represents a single sterling denominated loan from Telfin Ireland Limited with an interest rate of 3.25% and a maturity date of 30 June 2018. The purpose of the loan was to assist with the acquisition of 4G spectrum in 2013.

Charges of assets

As at 31 December 2014 and 31 December 2013, none of the assets of the O_2 UK Business were charged.

Exposure to fluctuations in exchange rates and any related hedging

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. O_2 UK Business is exposed to transactional foreign exchange risk arising from various currency movements, primarily with respect to Euro that can affect its results and financial position. O_2 UK Business has a small amount of transactional exposures. Such exposure arises from revenue and purchases by an O_2 UK Business operating unit that is in currencies other than the units' functional currency. There is no exchange rate related hedge at the O_2 UK Business level as the treasury functions are managed by the wider Telefónica S.A. group.

Obligations under finance leases

The O_2 UK Business' minimum lease payments under finance leases fall due as follows:

	31 December 2014			31 December 2013		
	Minimum lease payments	Finance charges	Present value	Minimum lease payments	Finance charges	Present value
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Within 1 year	24	—	24	73	(1)	72

Obligations under finance leases as at 31 December 2014 are in respect of the device lease proposition for business customers. Obligations under finance leases and hire purchase contracts held as at 31 December 2013 were mainly in respect of hire purchase agreements for fixed assets.

Cash and cash equivalent

The cash and cash equivalents of the O_2 UK Business as at 31 December 2014 and 31 December 2013 were denominated as follows:

	31 December 2014	31 December 2013
Sterling	89.9%	89.0%
Euro	6.5%	10.3%
USD	3.6%	0.7%
Total	**£139 m**	**£310 m**

Capital structure and management

Capital management

The O_2 UK Business' objectives when managing capital are to safeguard the O_2 UK Business' ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the O_2 UK Business may pay dividends to its shareholders, return capital to its shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

Financial instruments and management

There are no financial instruments at the O_2 UK Business level as treasury functions are managed by the wider Telefónica S.A. group.

Significant investments performance

The O_2 UK Business has a 33% interest in Weve Ltd which is involved in mobile messaging, advertising and loyalty programmes, and a 50% interest in Tesco Mobile Ltd which operates as a mobile virtual network operator. Both Weve Ltd and Tesco Mobile Ltd are joint venture companies, further details of which are set out below.

The O_2 UK Business' interest in Weve Ltd and Tesco Mobile Ltd is accounted for using the equity method in the combined financial statements. Summarised financial information of these joint ventures is set out below:

	Year ended 31 December 2014	Year ended 31 December 2013
	£m	*£m*
Revenue	608	519
Cost & expenses	(623)	(538)
Tax	(1)	—
Loss for the year	(16)	(19)
O_2 UK Business' share of loss	(7)	(6)

The O_2 UK Business will continue to operate these businesses post Completion.

Material transactions

On 15 July 2014, Telefónica S.A. announced the completion of the sale of 100% of Telefónica Ireland Ltd to the Group. An initial cash consideration of €780 million was received by Telefónica S.A. at completion and an additional deferred payment of €70 million will be payable by the Group to Telefónica S.A. upon the achievement of agreed financial objectives.

Employees

As at 31 December 2014, the O_2 UK Business had a total of 7,040 employees (2013: 8,929).

The O_2 UK Business is committed to employment policies that follow best practice, are based on equal opportunities for all, and recognise the diversity of its employees. This approach includes the fair treatment of people with disabilities in relation to their recruitment, training and development. The O_2 UK Business has also invested in the research of age, gender and disability diversity, and seeks to support all employees and their career development at every level of the organisation with consideration given to many different types of working arrangements.

Share-based payments

The costs of share options and awards are charged over the vesting period and are based upon the fair value of the share award or option at the award date, adjusted for the likelihood of non-market vesting conditions being met under the share award or option plan. Further details of the O_2 UK Business share-based payments arrangements are described in "*Appendix II — Financial Information of the O_2 UK Business — II Notes to the Financial Information of the Target Business — Note 11: Share-based payments*".

Pension plan

The O_2 UK Business operates a number of pension schemes being either defined benefit or defined contribution arrangements. Further details of the O_2 UK Business pension arrangements are described in "*Appendix II — Financial Information of the O_2 UK Business — II Notes to the Financial Information of the Target Business — Note 25: Pension plan*".

Commitment and Contingent liabilities

Operating lease commitments

The O_2 UK Business leases various offices, shops, vehicles and mast sites under non-cancellable operating lease agreements. These leases have various terms and renewal rights. As at 31 December 2014, the future aggregate minimum lease payment is £625 million (2013: £542 million).

The total future minimum sublease payment expected to be received by the O_2 UK Business under non-cancellable subleases as at 31 December 2014 is £46 million (2013: £44 million).

Other commitments

As at 31 December 2014, the O_2 UK Business had contracts placed for capital expenditure for fixed assets of £2,535 million (2013: £2,809 million).

Contingent liabilities

As at 31 December 2014, the O_2 UK Business had no contingent liabilities or guarantees pursuant to which material losses are expected. The O_2 UK Business has insurance cover up to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations.

The O_2 UK Business does not believe there are any pending legal proceedings which would have a material adverse effect on its financial position or results of operation.

Segmental information

As at 31 December 2014, the O_2 UK Business had only one reportable business segment, which is the telecommunication business in the UK.

B. For the year ended 31 December 2013 (and as compared to the year ended 31 December 2012)

Operations review

The O_2 UK Business' revenue for the year ended 31 December 2013 was £5,669 million (2012: £5,667 million). The O_2 UK Business' profit before interest and tax from the continuing operations for the year ended 31 December 2013 was £430 million (2012: £510 million).

Capital expenditure was £1,261 million for the year ended 31 December 2013 (2012: £758 million), which represents a 66% year-on-year increase, as a consequence of the acquisition of 4G spectrum for £550 million in 2013.

Operating cash flow totalled £1,247 million in 2013 (2012: £1,127 million).

At the end of 2013, the main mobile operating performance highlights of the O_2 UK Business were:

- **Customer numbers** — The O_2 UK Business mobile customer base increased to reach 23.6 million (an increase of 3.1% year-on-year) (2012: 22.9 million), as continued growth in the contract customer segment of 8.3% year-on-year offset a decline of 1.8% in prepay customers year-on-year. Mobile net additions stood at 784,782 in 2013, which was driven by the strong net addition of 982,938 postpay customers (though this was partly offset by a decrease in the number of prepay net additions by 198,156 customers). This reflected the rapid smartphone adoption and continuing competitive strength of the O_2 UK Business, particularly in the postpay customer segment. At the end of 2013, contract customers represented 54.5% of the base (an increase of 2.5% year-on-year) (2012: 52%).

- **ARPU** — Total ARPU was down by 8.8% year-on-year to £16.64 (2012: £18.25), and excluding mobile termination rate cuts, total ARPU in 2013 decreased by 6.4% year-on-year. Voice ARPU declined by 13.2% year-on-year to £7.79 in 2013 (2012: £8.97), and excluding the impact from mobile termination rate cuts, voice ARPU in 2013 decreased by 8.4% year-on-year. Data ARPU decreased by 4.5% year-on-year to £8.85 in 2013 (2012: £9.27).

- **Churn** — Churn totalled 2.3 % in 2013 (a 0.4% decrease year-on-year) (2012: 2.7%), and contract churn remained at 1.0% for the year (a 0.1% decrease year-on-year) (2012: 1.1%).

- **Traffic** — Mobile traffic volume carried in the UK increased by 5% year-on-year to 48,479 million minutes in 2013 (2012: 46,170 million).

Liquidity and financial resources

The O_2 UK Business did not have any external borrowings except for obligations under finance leases as at 31 December 2013 (2012: nil). The operation is generally self-funded, and funded by the larger Telefónica S.A. group when needed. There were no committed borrowing facilities as at 31 December 2013 (2012: nil). Accordingly, no external gearing ratio was applicable to the O_2 UK Business as at 31 December 2013.

Borrowings

As at 31 December 2013 and 31 December 2012, the O_2 UK Business did not have any external borrowings except for obligations under finance leases. Included in other non-current liabilities, there is an amount owed to related parties as at 31 December 2013 of £590 million (2012: nil), which represents a single sterling denominated loan from Telfin Ireland Limited with an interest rate of 3.25% and a maturity date of 30 June 2018. The purpose of the loan was to assist with the acquisition of 4G spectrum in 2013.

Charges of assets

As at 31 December 2013 and 31 December 2012, none of the assets of the O_2 UK Business were charged.

Exposure to fluctuations in exchange rates and any related hedging

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. O_2 UK Business is exposed to transactional foreign exchange risk arising from various currency movements, primarily with respect to Euro that can affect its results and financial position. O_2 UK Business has a small amount of transactional exposures. Such exposure arises from revenue and purchases by an O_2 UK Business operating unit that is in currencies other than the units' functional currency. There is no exchange rate related hedge at the O_2 UK Business level as the treasury functions are managed by the wider Telefónica S.A. group.

Obligations under finance leases

The O_2 UK Business' minimum lease payments under finance leases fall due as follows:

	31 December 2013			31 December 2012		
	Minimum lease payments	**Finance charges**	**Present value**	**Minimum lease payments**	**Finance charges**	**Present value**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Within 1 year	73	(1)	72	19	—	19
Between 1 — 5 years	—	—	—	57	(4)	53
	73	(1)	72	76	(4)	72

Obligations under finance leases and hire purchase contracts are mainly in respect of hire purchase agreements for fixed assets.

Cash and cash equivalent

The cash and cash equivalents of the O_2 UK Business as at 31 December 2013 and 31 December 2012 were denominated as follows:

	31 December 2013	31 December 2012
Sterling	89.0%	93.9%
Euro	10.3%	5.8%
USD	0.7%	0.3%
Total	**£310 m**	**£846 m**

Capital structure and management

Capital management

The O_2 UK Business' objectives when managing capital are to safeguard the O_2 UK Business' ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the O_2 UK Business may pay dividends to its shareholders, return capital to its shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

Financial instruments and management

There are no financial instruments at the O_2 UK Business level as treasury functions are managed by the wider Telefónica S.A. group.

The policies adopted by the O_2 UK Business in 2012 are consistent with those policies adopted by the O_2 UK Business in 2013.

Significant investments performance

The O_2 UK Business has a 33% interest in Weve Ltd which is involved in mobile messaging, advertising and loyalty programmes, and a 50% interest in Tesco Mobile Ltd which operates as a mobile virtual network operator. Both Weve Ltd and Tesco Mobile Ltd are joint venture companies.

The O_2 UK Business' interest in Weve Ltd and Tesco Mobile Ltd is accounted for using the equity method in the combined financial statements. Summarised financial information of these joint ventures is set out below:

	Year ended 31 December 2013	**Year ended 31 December 2012**
	£m	*£m*
Revenue	519	462
Cost & expenses	(538)	(396)
(Loss)/profit for the year	(19)	66
O_2 UK Business' share of (loss)/profit	(6)	34

The O_2 UK Business will continue to operate these businesses post Completion.

Material transactions

For the year ended 31 December 2013

On 30 April 2013, Telefónica UK Ltd disposed of part of its operations and 100% of Be Un Ltd, which collectively resulted in the transfer of its UK consumer broadband and fixed-line telephony business, to British Sky Broadcasting Ltd for a total consideration of £180 million and an additional amount of £20 million payable by British Sky Broadcasting Ltd to Telefónica UK Ltd upon the successful delivery of agreed milestones.

On 24 June 2013, Telefónica S.A. entered into an agreement with the Group, to dispose of its 100% stake in Telefónica Ireland Ltd for an initial consideration of €780 million in cash payable at completion and an additional deferred payment of €70 million payable by the Group to Telefónica S.A. upon the achievement of agreed financial objectives.

For the year ended 31 December 2012

On 10 October 2012, the Directors approved a reconstruction of Telefónica UK Ltd and the creation of a joint operation arrangement with Vodafone Mobile Network Limited. Part of the transaction included the transfer of certain assets of Telefónica UK Ltd relating to its network infrastructure in consideration for the issue of 50% of the share capital of Cornerstone Telecommunications Infrastructure Limited to the parent companies of Telefónica UK Ltd.

On 28 September 2012, Telefónica UK Ltd entered into a joint venture, Weve Limited, with Everything Everywhere UK Limited and Vodafone UK Limited. Weve Limited is a mobile advertising, loyalty and payments company.

On 17 October 2012, Telefónica UK Ltd formed a joint venture, Digital Mobile Spectrum Limited, with Everything Everywhere Limited, Hutchison 3G UK Limited and Vodafone Limited. The purpose of the joint venture arrangement is to mitigate possible interference with the digital terrestrial television network which may be caused when establishing the 4G mobile network in 2013.

Employees

As at 31 December 2013, the O_2 UK Business has a total of 8,929 employees (2012: 11,248).

The O_2 UK Business is committed to employment policies that follow best practice, are based on equal opportunities for all, and recognise the diversity of its employees. This approach includes the fair treatment of people with disabilities in relation to their recruitment, training and development. The O_2 UK Business has also invested in the research of age, gender and disability diversity, and seeks to support all employees and their career development at every level of the organisation with consideration given to many different types of working arrangements.

Share based payments

The costs of share options and awards are charged over the vesting period and are based upon the fair value of the share award or option at the award date, adjusted for the likelihood of non-market vesting conditions being met under the share award or option plan. Further details of the O_2 UK Business share-based payments arrangements are described in "*Appendix II — Financial Information of the O_2 UK Business — II Notes to the Financial Information of the Target Business — Note 11: Share-based payments*".

Pension plan

The O_2 UK Business operates a number of pension schemes being either defined benefit or defined contribution arrangements. Further details of the O_2 UK Business pension arrangements are described in "*Appendix II — Financial Information of the O_2 UK Business — II Notes to the Financial Information of the Target Business — Note 25: Pension plan*".

Commitment and Contingent liabilities

Operating lease commitments

The O_2 UK Business leases various offices, shops, vehicles and mast sites under non-cancellable operating lease agreements. These leases have various terms and renewal rights. As at 31 December 2013, the future aggregate minimum lease payment is £542 million (2012: £593 million).

The total future minimum sublease payment expected to be received by the O_2 UK Business under non-cancellable subleases as at 31 December 2013 is £44 million (2012: £40 million).

Other commitments

As at 31 December 2013, the O_2 UK Business had contracts placed for capital expenditure for fixed assets of £2,809 million (2012: £469 million).

Contingent liabilities

As at 31 December 2013 and 31 December 2012, the O_2 UK Business had no contingent liabilities or guarantees pursuant to which material losses are expected. The O_2 UK Business has insurance cover up to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations.

The O_2 UK Business does not believe there are any pending legal proceedings which would have a material adverse effect on its financial position or results of operation.

Segmental information

As at 31 December 2013 and 31 December 2012, the O_2 UK Business had only one reportable business segment, which is the telecommunication business in the UK.

C. Future plans for material investments or capital assets and their expected sources of funding by the O_2 UK Business for the year ended 31 December 2015

The Vendor has made contractual committments under the terms of the Share Purchase Agreement, that the O_2 UK Business will, for the period up to Completion:

- be managed in accordance with prudent budgetary management practices of the O_2 UK Business and prudent network management practices of the O_2 UK Business with the intention of maintaining the profitability of the O_2 UK Business;

- manage its material projects and capital expenditure in accordance with prudential network management practices of the O_2 UK Business; and

- carry on its business in the ordinary course,

and is not expected to engage in any material investments or capital asset acquisitions during that period.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the HWL Securities Code, or in accordance with information received by the Company, were as follows:

2.1 Directors' interests and short positions in the shares of the Company

Long positions in the shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
Li Ka-shing	Founder of discretionary trusts	Other interest	2,141,698,773 (1)		
	Interest of controlled corporations	Corporate interest	94,534,000 (2)	2,236,232,773	52.4522%
Li Tzar Kuoi, Victor	Beneficiary of trusts	Other interest	2,141,698,773 (1)		
	Interest of controlled corporations	Corporate interest	1,086,770 (3)		
	Interest of child	Family interest	300,000 (4)	2,143,085,543	50.2674%

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
Fok Kin Ning, Canning	Interest of a controlled corporation	Corporate interest	6,010,875 (5)	6,010,875	0.1410%
Chow Woo Mo Fong, Susan	Beneficial owner	Personal interest	190,000	190,000	0.0045%
Frank John Sixt	Beneficial owner	Personal interest	200,000	200,000	0.0047%
Lai Kai Ming, Dominic	Beneficial owner	Personal interest	50,000	50,000	0.0012%
Kam Hing Lam	Beneficial owner	Personal interest	60,000		
	Interest of child	Family interest	40,000	100,000	0.0023%
Michael David Kadoorie	Founder, a beneficiary and/or a discretionary object of discretionary trust(s)	Other interest	15,984,095 (6)	15,984,095	0.3749%
Lee Yeh Kwong, Charles	Beneficial owner	Personal interest	1,070,358		
	Interest of spouse	Family interest	55,000		
	Interest of a controlled corporation	Corporate interest	10,000 (7)	1,135,358	0.0266%

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
George Colin Magnus	Founder and beneficiary of a discretionary trust	Other interest	950,100 [(8)]		
	Beneficial owner	Personal interest	40,000		
	Interest of spouse	Family interest	9,900	1,000,000	0.0235%
William Shurniak	Beneficial owner	Personal interest	165,000	165,000	0.0039%

Notes:

(1) The two references to 2,141,698,773 shares of the Company relate to the same block of shares comprising:

(a) 2,130,202,773 shares held by certain subsidiaries of CK Hutchison. Mr Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2"). Each of Li Ka-Shing Unity Trustee Corporation Limited (which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited (which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr Li Tzar Kuoi, Victor, his wife and children, and Mr Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued shares of CK Hutchison.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are respectively interested in one-third and two-thirds of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CK Hutchison by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CK Hutchison independently without any reference to Unity Holdco or any of Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor as a holder of the shares of Unity Holdco as aforesaid.

As Mr Li Ka-shing may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO and Mr Li Tzar Kuoi, Victor is a discretionary beneficiary of each of DT1 and DT2, and by virtue of the above, both Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are taken to have a duty of disclosure in relation to the shares of CK Hutchison held by TUT1 as trustee of UT1 and TUT1 related companies and the said shares of the Company held by the subsidiaries of CK Hutchison under the SFO as directors of CK Hutchison.

(b) 11,496,000 shares held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3").

Mr Li Ka-shing is the settlor of each of the two discretionary trusts ("DT3" and "DT4"). Each of Li Ka-Shing Castle Trustee Corporation Limited ("TDT3", which is the trustee of DT3) and Li Ka-Shing Castle Trustcorp Limited (which is the trustee of DT4) holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT3 and DT4 are, inter alia, Mr Li Tzar Kuoi, Victor, his wife and children, and Mr Li Tzar Kai, Richard.

The entire issued share capital of TUT3 and the trustees of DT3 and DT4 are owned by Li Ka-Shing Castle Holdings Limited ("Castle Holdco"). Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are respectively interested in one-third and two-thirds of the entire issued share capital of Castle Holdco. TUT3 is only interested in the shares of the Company by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of the Company independently without any reference to Castle Holdco or any of Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor as a holder of the shares of Castle Holdco as aforesaid.

As Mr Li Ka-shing may be regarded as a founder of each of DT3 and DT4 for the purpose of the SFO and Mr Li Tzar Kuoi, Victor is a discretionary beneficiary of each of DT3 and DT4, and by virtue of the above, both Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are taken to have a duty of disclosure in relation to the said shares of the Company held by TUT3 as trustee of UT3 under the SFO as Directors of the Company.

(2) Such shares are held by certain companies of which Mr Li Ka-shing is interested in the entire issued share capital.

(3) Such shares are held by certain companies of which Mr Li Tzar Kuoi, Victor is interested in the entire issued share capital.

(4) Such shares are held by a company in which a child of Mr Li Tzar Kuoi, Victor is entitled to exercise or control the exercise of one-third or more of voting power at its general meetings.

(5) Such shares are held by a company which is equally controlled by Mr Fok Kin Ning, Canning and his spouse.

(6) Such shares are ultimately held by discretionary trust(s) of which The Hon Sir Michael David Kadoorie is either the founder, a beneficiary and/or a discretionary object.

(7) Such shares are held by a company of which Mr Lee Yeh Kwong, Charles is interested in the entire issued share capital.

(8) Such shares are indirectly held by a discretionary trust of which Mr George Colin Magnus is the settlor and a discretionary beneficiary.

2.2 Directors' interests and short positions in the shares, underlying shares and debentures of the associated corporations of the Company

Long positions in the shares, underlying shares and debentures of the associated corporations of the Company

As at the Latest Practicable Date, Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor, as Directors, were deemed to be interested in the following by virtue of, inter alia, their interests in the shares of CK Hutchison or the Company as described in Note (1) above:

(i) 1,912,109,945 ordinary shares, representing approximately 75.88% of the then issued share capital, in CKI of which 1,906,681,945 ordinary shares are held by a wholly owned subsidiary of the Company and 5,428,000 ordinary shares are held by TUT1 as trustee of UT1;

(ii) 3,185,136,120 ordinary shares, representing approximately 66.10% of the then issued share capital, in HTHKH of which 52,092,587 ordinary shares and 3,132,890,253 ordinary shares are held by certain wholly owned subsidiaries of each of CK Hutchison and the Company respectively and 153,280 ordinary shares are held by TUT3 as trustee of UT3;

(iii) 829,599,612 ordinary shares, representing approximately 38.87% of the then issued shares, in Power Assets which shares are held by certain wholly owned subsidiaries of CKI;

(iv) 2,424,102,908 ordinary shares, representing approximately 62.26% of the then issued share capital, in TOM of which

(a) 476,341,182 ordinary shares and 952,683,363 ordinary shares are held by a wholly owned subsidiary of each of CK Hutchison and the Company respectively; and

(b) 995,078,363 ordinary shares charged by Cranwood Company Limited and its subsidiaries in favour of the Company as security;

(v) 334,141,932 common shares, representing approximately 33.96% of the then issued shares, in Husky Energy held by a wholly owned subsidiary of the Company;

(vi) 98 ordinary shares, representing 9,800% of the then issued share capital, in HWPL Holdings Limited, which is a wholly owned subsidiary of the Company; and

(vii) all interests in shares, underlying shares and/or debentures in all associated corporations of the Company.

As Mr Li Ka-shing is the settlor of a discretionary trust and Mr Li Tzar Kuoi, Victor is a discretionary beneficiary of that discretionary trust, for the purpose of the SFO Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor, as Directors, were deemed to be interested in 349,869,015 common shares, representing approximately 35.56% of the then issued shares, in Husky Energy which are held by a company indirectly owned by the trustee of a discretionary trust as aforementioned. Pursuant to a conditional agreement dated 9 January 2015 entered into between L.F. Investments S.à r.l. (the "**Husky Sale Shares Vendor**"), a corporation held indirectly by the said discretionary trust, and Hutchison Whampoa Europe Investments S.à r.l. (the "**Husky Sale Shares Purchaser**"), a wholly owned subsidiary of the Company, the Husky Sale Shares Purchaser will acquire 61,357,010 common shares, representing approximately 6.24% of the then issued shares, in Husky Energy from the Husky Sale Shares Vendor subject to certain conditions.

Mr Li Ka-shing, as Director, was also deemed to be interested in a nominal amount of US$25,000,000 in the 7.25% Notes due 2019 issued by Husky Energy held by a wholly owned subsidiary of the Company by virtue of his interests in the shares of the Company as described in Note (1) above.

In addition, Mr Li Ka-shing had, as at the Latest Practicable Date, corporate interests in (i) a nominal amount of US$9,100,000 in the 6.625% Guaranteed Perpetual Capital Securities issued by PHBS Limited; and (ii) 403,979,499 ordinary shares, representing approximately 8.38% of the then issued share capital, in HTHKH, which are held by companies of which Mr Li Ka-shing is interested in the entire issued share capital.

Mr Li Tzar Kuoi, Victor had, as at the Latest Practicable Date, the following interests:

(i) family interests in (a) 151,000 ordinary shares, representing approximately 0.007% of the then issued shares, in Power Assets held by his spouse; and (b) 192,000 ordinary shares, representing approximately 0.004% of the then issued share capital, in HTHKH held by a company in which his child is entitled to exercise or control the exercise of one-third or more of voting power at its general meetings; and

(ii) corporate interests in (a) a nominal amount of US$45,792,000 in the 7.625% Notes due 2019 issued by Hutchison Whampoa International (09) Limited; (b) 2,519,250 ordinary shares, representing approximately 0.05% of the then issued share capital, in HTHKH; (c) a nominal amount of US$35,395,000 in the Subordinated Guaranteed Perpetual Capital Securities issued by Hutchison Whampoa International (10) Limited ("HWI(10)"); and (d) a nominal amount of US$16,800,000 in the Subordinated Guaranteed Perpetual Capital Securities issued by Hutchison Whampoa International (12) Limited, which are held by companies of which Mr Li Tzar Kuoi, Victor is interested in the entire issued share capital.

Mr Fok Kin Ning, Canning had, as at the Latest Practicable Date, the following interests:

(i) corporate interests in (a) a nominal amount of US$4,000,000 in the 5.75% Notes due 2019 issued by Hutchison Whampoa International (09/19) Limited; (b) a nominal amount of US$2,000,000 in the 7.25% Notes due 2019 issued by Husky Energy; and (c) a nominal amount of US$5,000,000 in the Subordinated Guaranteed Perpetual Capital Securities issued by HWI(10);

(ii) 5,100,000 ordinary shares, representing approximately 0.04% of the then issued shares, in HTAL comprising personal and corporate interests in 4,100,000 ordinary shares and 1,000,000 ordinary shares respectively;

(iii) corporate interests in 1,202,380 ordinary shares, representing approximately 0.02% of the then issued share capital, in HTHKH;

(iv) corporate interests in 250,000 common shares, representing approximately 0.03% of the then issued shares, in Husky Energy; and

(v) corporate interests in 2,000,000 share stapled units, representing approximately 0.02% of the then issued share stapled units, in HKEI and HKEIL.

Mr Fok Kin Ning, Canning holds the above personal interests in his capacity as a beneficial owner and holds the above corporate interests through a company which is equally controlled by Mr Fok and his spouse.

Mrs Chow Woo Mo Fong, Susan in her capacity as a beneficial owner had, as at the Latest Practicable Date, personal interests in 250,000 ordinary shares, representing approximately 0.005% of the then issued share capital, in HTHKH.

Mr Frank John Sixt in his capacity as a beneficial owner had, as at the Latest Practicable Date, personal interests in (i) 1,000,000 ordinary shares, representing approximately 0.007% of the then issued shares, in HTAL; (ii) 17,000 American depositary shares (each representing 15 ordinary shares), representing approximately 0.005% of the then issued share capital, in HTHKH; (iii) 39,345 common shares, representing approximately 0.004% of the then issued shares, in Husky Energy; and (iv) a nominal amount of US$1,000,000 in the Subordinated Guaranteed Perpetual Capital Securities issued by HWI(10).

Mr Kam Hing Lam had, as at the Latest Practicable Date, the following interests:

(i) personal interests in 100,000 ordinary shares, representing approximately 0.004% of the then issued share capital, in CKI held in his capacity as a beneficial owner; and

(ii) family interests in 100,000 ordinary shares, representing approximately 0.005% of the then issued shares, in Power Assets held by his child.

Ms Lee Wai Mun, Rose had, as at the Latest Practicable Date, the following interests:

(i) personal interests in 2,200 ordinary shares, representing approximately 0.0001% of the then issued shares, in Power Assets held in her capacity as a beneficial owner; and

(ii) 42,634 common shares, representing approximately 0.004% of the then issued shares, in Husky Energy comprising corporate interests in 10,000 common shares held through a company of which Ms Lee is interested in the entire issued share capital and other interests in 32,634 common shares held jointly with another person.

Mr Lee Yeh Kwong, Charles had, as at the Latest Practicable Date, the following interests:

(i) 247,000 ordinary shares, representing approximately 0.01% of the then issued shares, in Power Assets comprising corporate interests in 100,000 ordinary shares held through a company of which Mr Lee is interested in the entire issued share capital and family interests in 147,000 ordinary shares held by his spouse;

(ii) family interests in 1,500 common shares, representing approximately 0.0002% of the then issued shares, in Husky Energy held by his spouse; and

(iii) 61,750 share stapled units, representing approximately 0.0007% of the then issued share stapled units, in HKEI and HKEIL comprising corporate interests in 25,000 share stapled units held through a company of which Mr Lee is interested in the entire issued share capital and family interests in 36,750 share stapled units held by his spouse.

Mr George Colin Magnus had, as at the Latest Practicable Date, the following interests:

(i) 13,333 ordinary shares, representing approximately 0.0003% of the then issued share capital, in HTHKH comprising personal interests in 13,201 ordinary shares held in his capacity as a beneficial owner and family interests in 132 ordinary shares held by his spouse; and

(ii) personal interests in 34,239 common shares and 23,805 unlisted and physically settled Deferred Share Units (each representing 1 common share), in aggregate representing approximately 0.006% of the then issued shares, in Husky Energy held in his capacity as a beneficial owner.

Mr William Shurniak in his capacity as a beneficial owner had, as at the Latest Practicable Date, personal interests in 26,624 common shares, representing approximately 0.003% of the then issued shares, in Husky Energy.

The Company had obtained from the Stock Exchange a waiver from strict compliance with paragraph 38(1) of Appendix 1, Part B of the Listing Rules from disclosing in this circular the deemed interests of Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor in the securities of all other associated corporations of the Company by virtue of their interests in CK Hutchison and the interests of CK Hutchison in the Company as described in Note (1) above, on the ground that the particulars being disclosed were not material in the context of the Group and were of excessive length.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the HWL Securities Code.

Certain Directors held qualifying shares in certain subsidiaries of the Company on trust for other subsidiaries.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered, or proposed to enter, into any service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE ENLARGED GROUP

Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor are regarded as having a material interest in the Husky Share Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the date of this circular and are or may be material:

(a) the Husky Share Exchange Agreement dated 9 January 2015 pursuant to which as part of the Merger Proposal, the Husky Sale Shares Purchaser will acquire from the Husky Sale Shares Vendor 61,357,010 Husky Shares, representing approximately 6.24% of the then issued common shares of Husky Energy. The consideration for the acquisition will be satisfied by the issue of 84,427,246 new ordinary shares in CK Hutchison by CK Hutchison to the Husky Sale Shares Vendor (or as it may direct);

(b) the guarantee agreement dated 9 January 2015 entered into between the Company and the Husky Sale Shares Vendor in connection with the Husky Share Exchange pursuant to which the Company guaranteed to the Husky Sale Shares Vendor the due and punctual performance by the Husky Sale Shares Purchaser of its obligations under the Husky Share Exchange Agreement;

(c) the guarantee agreement dated 9 January 2015 entered into between TUT1 (as trustee of UT1), TDT3 (as trustee of DT3) and the Husky Sale Shares Purchaser in connection with the Husky Share Exchange pursuant to which each of TUT1 (as trustee of UT1) and TDT3 (as trustee of DT3) respectively guaranteed to the Husky Sale Shares Purchaser the due and punctual performance by the Husky Sale Shares Vendor of its obligations under the Husky Share Exchange Agreement; and

(d) the Share Purchase Agreement, details of which are further set out in this circular.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Enlarged Group is not engaged in any material litigation or arbitration proceedings nor is any material litigation or claim pending or threatened against it.

7. EXPERT AND CONSENT

(a) Qualification of expert

Set out below is the qualification of the expert who has given opinions or advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong

(b) Interests of expert

As at the Latest Practicable Date, PricewaterhouseCoopers was not interested in any securities of any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, and PricewaterhouseCoopers did not have any direct or indirect interest in any assets which had been, since 31 December 2014 (being the date to which the latest published audited financial statements of the Company and its subsidiaries were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

(c) Consent

PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and/or references to its name in the form and context in which they respectively appear in this circular.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors of the Company had interests in the following businesses (apart from the businesses of the Company or its subsidiaries) conducted through the companies named below, their subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Company or its subsidiaries which are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules:

Name of Director	Name of Company	Nature of Interest	Nature of Competing Businesses
Li Ka-shing	CK Hutchison	Chairman	• Property and hotels • Infrastructure
Li Tzar Kuoi, Victor	CK Hutchison	Managing Director and Deputy Chairman	• Property and hotels • Infrastructure
	CKI	Chairman	• Infrastructure
	CKLS	Chairman	• Retail (research and development, manufacturing, commercialisation, marketing and selling of health and agriculture-related products)
	HKEIML as trustee-manager of HKEI, and HKEIL	Deputy Chairman of HKEIL and Non-executive Director of both HKEIML and HKEIL	• Infrastructure
	Husky Energy	Co-Chairman	• Energy
	Power Assets	Non-executive Director	• Infrastructure • Energy
Fok Kin Ning, Canning	CK Hutchison	Non-executive Director	• Property and hotels • Infrastructure
	CKI	Deputy Chairman	• Infrastructure
	HKEIML as trustee-manager of HKEI, and HKEIL	Chairman	• Infrastructure

Name of Director	Name of Company	Nature of Interest	Nature of Competing Businesses
	HPH Management as trustee-manager of HPH Trust	Chairman	• Ports and related services
	HTAL	Chairman	• Telecommunications
	Husky Energy	Co-Chairman	• Energy
	Power Assets	Chairman	• Infrastructure • Energy
Chow Woo Mo Fong, Susan	CKI	Executive Director	• Infrastructure
	HKEIML as trustee-manager of HKEI, and HKEIL	Alternate Director	• Infrastructure
	HTAL	Director	• Telecommunications
	TOM	Alternate Director	• Telecommunications (mobile internet and e-commerce)
Frank John Sixt	CK Hutchison	Non-executive Director	• Property and hotels • Infrastructure
	CKI	Executive Director	• Infrastructure
	HPH Management as trustee-manager of HPH Trust	Non-executive Director	• Ports and related services
	HTAL	Director	• Telecommunications
	Husky Energy	Director	• Energy
	Power Assets	Non-executive Director	• Infrastructure • Energy
	TOM	Non-executive Chairman	• Telecommunications (mobile internet and e-commerce)
Lai Kai Ming, Dominic	HTAL	Director	• Telecommunications

Name of Director	Name of Company	Nature of Interest	Nature of Competing Businesses
Kam Hing Lam	CK Hutchison	Deputy Managing Director	• Property and hotels • Infrastructure
	CKI	Group Managing Director	• Infrastructure
	CKLS	President and Chief Executive Officer	• Retail (research and development, manufacturing, commercialisation, marketing and selling of health and agriculture-related products)
	Hui Xian Asset Management Limited as manager of Hui Xian Real Estate Investment Trust	Chairman	• Property and hotels
Lee Yeh Kwong, Charles	CK Hutchison	Non-executive Director	• Property and hotels • Infrastructure
	Team Investment Limited	Director and Shareholder	• Energy
George Colin Magnus	CK Hutchison	Non-executive Director	• Property and hotels • Infrastructure
	CKI	Non-executive Director	• Infrastructure

As at the Latest Practicable Date, Mr Fok Kin Ning, Canning, Mrs Chow Woo Mo Fong, Susan, Mr Frank John Sixt and Mr Lai Kai Ming, Dominic were non-executive directors, and Mr Fok and Mr Lai were also alternate directors to Mrs Chow and Mr Sixt respectively, of HTHKH, which is engaged in telecommunications businesses.

A non-competition agreement was entered into by the Company with each of Hutchison Telecommunications International Limited ("HTIL") and HTHKH on 17 April 2009, whereby the parties thereto agreed, inter alia, to clearly delineate the respective geographical markets and businesses of each of (i) the Group (excluding HTIL and its subsidiaries (the "HTIL Group") and HTHKH and its subsidiaries (the "HTHKH Group")), (ii) the HTIL Group, and (iii) the HTHKH Group within their respective territories for the purpose of implementing the non-competition restrictions.

The exclusive territory of the HTHKH Group comprised Hong Kong and Macau whereas the exclusive territory of the Group (which in substance includes those of the HTIL Group following the privatisation of HTIL in 2010 but excludes the HTHKH Group) comprised all the remaining countries of the world.

9. MISCELLANEOUS

(a) The company secretary of the Company is Ms Edith Shih. Ms Shih received a Bachelor of Science degree in Education and a Master of Arts degree from the University of the Philippines and a Master of Arts degree and a Master of Education degree from Columbia University, New York. Ms Shih is a qualified solicitor in England and Wales, Hong Kong and Victoria, Australia and a Fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is situated at 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

(c) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays and public holidays excepted) up to and including 16 June 2015:

(a) the articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014;

(c) the accountant's report of the O_2 UK Business for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 from PricewaterhouseCoopers, the text of which is set out in Appendix II of this circular;

(d) the report on unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers, the text of which is set out in Appendix III of this circular;

(e) the material contracts referred to in the paragraph headed *"5. Material Contracts"* of this Appendix;

(f) a statement of adjustments signed by PricewaterhouseCoopers;

(g) the written consent referred to in the paragraph headed *"7. Expert and Consent"* of this Appendix; and

(h) this circular.