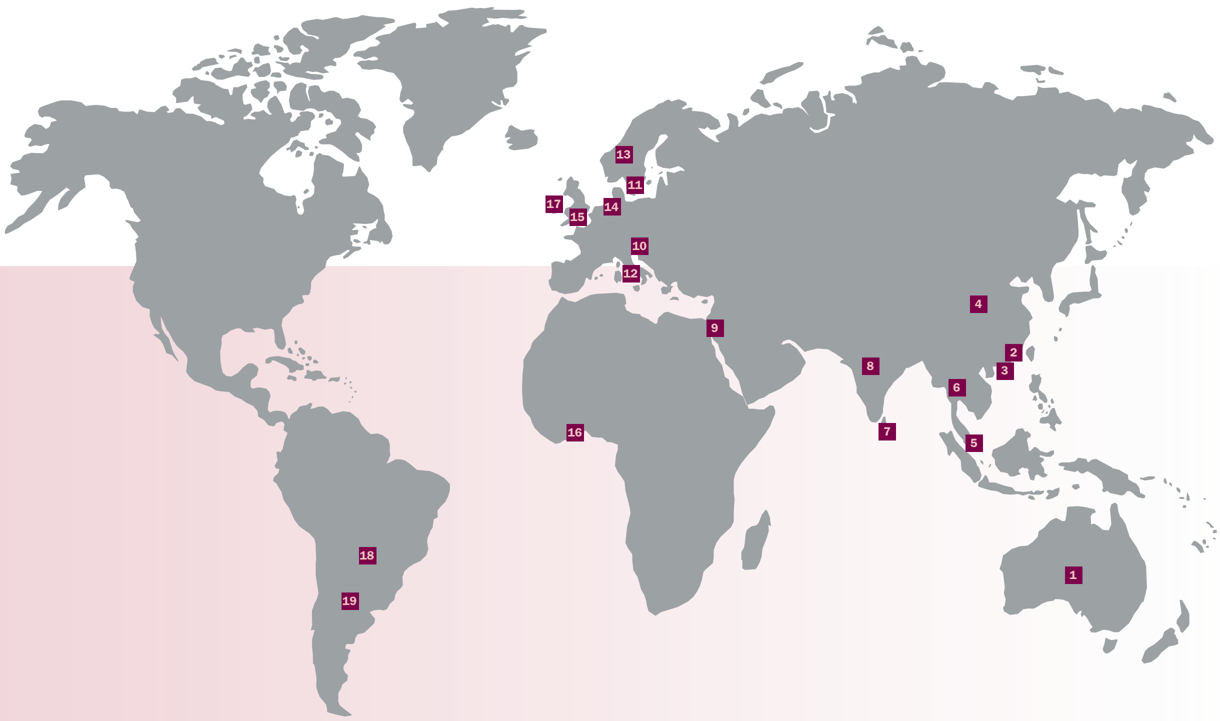
Operations Review

Telecommunications

The 3 HK flagship store, opened on 27 January 2004, heralds the start of a new video mobile communications era in Hong Kong, where the people are particularly enthusiastic to try out the territory's first 3G service.



The Group has strong market share positions in the profit generating 2G mobile telecommunications operations in Hong Kong, Israel and also India, a rapidly growing mobile market. In addition, this division includes a fixed line business in Hong Kong with a fibre-optic network, a CDMA2000 1X mobile operation in Thailand, 2G mobile operations in Australia and other countries, HGC Holdings, a telecommunications and information technology company, and also accounts for the dividends received from the Group's investments in Vodafone Group and Deutsche Telekom. Turnover of this division increased 16% to HK$15,471 million, and EBIT increased 23% to HK$1,195 million.

1 ■ Australia
2 ■ Hong Kong
3 ■ Macau
4 ■ Mainland China
5 ■ Malaysia
6 ■ Thailand
7 ■ Sri Lanka
8 ■ India
9 ■ Israel
10 ■ Austria
11 ■ Sweden
12 ■ Italy
13 ■ Norway
14 ■ Denmark
15 ■ UK
16 ■ Ghana
17 ■ Rep. of Ireland
18 ■ Paraguay
19 ■ Argentina

These results reflect the improved results from the 2G operations in India, Israel and Australia, the continued customer growth for Hutchison Global Communications' ("HGC") broadband, data and voice services, and a gain of HK$239 million arising from TOM Group's placement of its shares during the year, partially offset by a one-time HK$225 million write-off by HGC of international bandwidth capacity as a result of Asia Global Crossing's bankruptcy. In addition, last year's results included a HK$758 million dividend from Deutsche Telekom, which paid no dividends during the year. Excluding these non-recurring items, EBIT increased 460%. The Group has 3G mobile telecommunications spectrum licences in seven countries in Europe, Australia, Hong Kong and Israel. The 3G operations in the major UK, Italian and Australian markets commenced commercial operations under the **3** *brand during the year. In late January this year, the Group's Hong Kong operation began offering 3G services and the other countries are scheduled to begin offering commercial services this year. The combined 3G operations reported total turnover of HK$2,023 million, a net loss after taxation of HK$9,668 million, before a release of provision of HK$7,810 million, after which the net loss totalled HK$1,858 million.*

The Group's mobile customer base grew 81% to currently total approximately 11 million, comprising approximately 10 million 2G and one million 3G customers.

Telecommunications – 2G and Other Operations

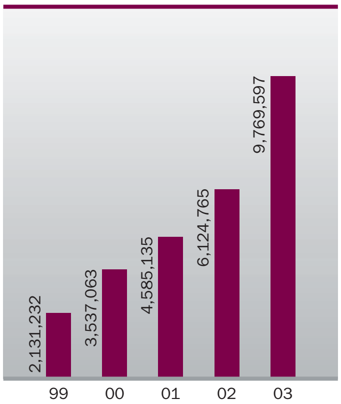
The telecommunications – 2G and other operations include the combined results of 2G mobile operations in Hong Kong, Australia, India, Israel and other 2G operations, the fixed line operation in Hong Kong of HGC and an information technology company, Vanda Systems & Communications Holdings ("Vanda").

Hong Kong

In Hong Kong, the Group's 2G operations maintains its leading market position with a market share of approximately 26% and a current customer base exceeding 1.8 million. EBIT increased 8% compared to last year, reflecting operational cost savings that offset the effect of competitive pressure on average revenue per user ("ARPU").

HGC owns and operates a terrestrial fibre-optic network in Hong Kong with over 4,000 kilometres of duct routes. HGC's fibre-optic network is connected to major undersea cable-network systems to provide international bandwidth and also has links to networks in the Mainland. HGC has reported continued customer growth for its broadband, data and voice services. HGC reported its first full year EBIT in 2003, an increase of 255%.

2G Mobile Telephone Subscribers



Hong Kong, Australia, India, Israel and other locations

In September 2003, the Group exercised conversion rights on its bond holdings and became a 37% shareholder of Vanda, an information technology solutions company listed on The Stock Exchange of Hong Kong ("SEHK"). Vanda announced turnover of HK$689 million and net loss attributable to shareholders of HK$76 million for the nine months ended 31 December 2003. In March 2004, Vanda's shareholders purchased 100% of HGC and 100% of PowerCom Network Hong Kong ("PowerCom"), an innovative provider of broadband services that can be accessed through power sockets. The merger of the HGC, Vanda and PowerCom businesses, renamed Hutchison Global Communications Holdings ("HGC Holdings"), will create an integrated telecommunications and information technology company offering a wide range of innovative and advanced information technology, systems integration and telecommunications services. The total consideration received by the Group on disposal of HGC was HK$7,100 million, which was satisfied by the issuance of new HGC Holdings shares valued at HK$3,900 million and convertible notes valued at HK$3,200 million. The Group's stake in HGC Holdings increased to approximately 79% of the enlarged share capital base of HGC Holdings. Subsequently, the Group sold a portion of its new HGC Holdings shares by way of a share placement, and as a result, the Group's stake in HGC Holdings decreased to approximately 53%. The disposal of these shares resulted in a profit of approximately HK$1,300 million which will be reported in the Group's first half results for 2004.

Australia

The Group's 57.8% owned listed subsidiary in Australia, Hutchison Telecommunications Australia ("HTA"), announced turnover of A$340 million, an increase of 50%, and a net loss attributable to shareholders of A$410 million compared to A$197 million last year, which reflects the commencement of its 3G operations and the related start-up losses. Included in these consolidated results are HTA's 2G operations, which reported a 23% increase in Orange Mobile 2G customers to over 325,000. Orange Mobile's revenue grew 15% to A$222 million and it achieved its first full year positive earnings before interest expense, taxation, depreciation and amortisation ("EBITDA").

India

The Group's 2G operations in India consist of an approximately 49% interest in GSM mobile businesses in ten circles: Hutchison Max Telecom in Mumbai, Hutchison Essar Telecom in Delhi, Fascel in the province of Gujarat, Hutchison Essar South in the provinces of Karnataka, Andhra Pradesh and the city of Chennai ("New South Circles") and Hutchison Telecom East in Kolkata and its subsidiary Aircel Digilink India ("ADIL") in the provinces of Rajasthan, Haryana and Uttar Pradesh East ("New North Circles"). EBIT increased 174% reflecting strong EBIT growth of the existing operations in Mumbai, Delhi, Kolkata and Gujarat. Penetration of this rapidly growing mobile telecommunications market continued and customers grew an impressive 140% to currently total over 4.8 million. The New South Circles, which commenced service in the second quarter of 2002 under the "Hutch" brand, recorded customer growth of 297% and customers currently total approximately 637,000. In August, the New North Circles were added on completion of a merger with ADIL. In November, the Group successfully acquired the fourth Cellular Mobile Telephone Service licence in the state

The Group has acquired new licences in India to further expand its network coverage in the country.

Staff of Partner Communications get ready for the day to serve customers at their headquarters in Tel Aviv.

of Punjab and services are expected to commence from the second quarter of 2004. In February this year, the Group was granted a Unified Access Services Licence in Uttar Pradesh West, and GSM services are planned to commence in the second half of this year.

Israel

The Group's 2G operations also include 43.21% owned, associated company, Partner Communications ("Partner") in Israel, which is listed on NASDAQ, London and Tel Aviv stock exchanges and operates a 2G network using the "Orange" brand. Partner increased its customer base by 15% to over 2.1 million at the end of the year. Partner announced turnover of US$1,020 million, 10% higher than last year, and profit attributable to shareholders of US$266 million, a significant increase from a net profit of US$18 million last year. This profit included a US$145 million tax benefit resulting from the recognition of the future benefits anticipated from Partner's accumulated taxes losses carried forward.

Thailand

The Group commenced CDMA2000 1X mobile telecommunications services in Thailand in February 2003 and results to date have been encouraging. From a standing start, the customer base has grown to currently over 460,000. Although start-up losses are being incurred as this business is built up, performance has been ahead of expectations. "Hutch" brand services are currently available in the greater Bangkok area and the East Coast Region, and services are being rolled out to the West Coast Region in 2004.

Sales representatives at the Hutch shop in Bangkok explain product details and promotion packages to customers. The concept of Hutch Shop service is to provide consumers with a total wireless multimedia experience as well as quality after-sales services.

Telecommunications – 3G

The Group's 3G businesses in the UK, Italy and Australia began commercial services during the year under the **3** brand offering a range of communication and content services including mobile video telephony, multimedia messaging and e-mail, and media products such as FA Premier League football in the UK, *Serie A* and *Serie B* football club sports events in Italy, test cricket coverage in Australia, CNN, Reuters and local news and a variety of entertainment and lifestyle content. Summer promotional offerings in these markets were well received and all of the first generation of 3G handsets delivered by the Group's suppliers were sold in a few months. Although committed to develop, manufacture and deliver a significantly enhanced second generation of 3G handsets for sale during the third quarter, suppliers only made limited deliveries, seriously impairing the Group's ability to increase its customer base. The issue has been resolved and early this year, the Group's suppliers commenced delivery of new handset models in commercial quantities. As a result, sales have increased steadily in all markets. To date, **3** has offered nine different handset models ranging from sleek flip-phone designs, to full QWERTY keyboard models, to groundbreaking personal digital assistant ("PDA") models with touch screen user interface. Handsets have an innovative embedded video camera that enables real-time person-to-person mobile videocalls. With an ample supply of new handset models in distribution channels, the Group's recent tariff offerings have been well received and currently, the Group has approximately 1,038,000 customers worldwide with approximately 361,000 in the UK, 453,000 in Italy, and 36,500 in Hong Kong. Distribution networks have been established and fruitful working relationships with dealers and retailers have been solidified, which is exemplified by the strong customer additions to date in 2004.

During the year, the Group continued to roll out rapidly and improve the quality of its networks. At the end of 2003, approximately 65% of the capital expenditures requirements for 3G operations worldwide had been incurred (over and above licence costs, which were 100% funded at the outset of these projects). With all major network equipment and handset manufacturers now in the market and the scheduled launch of 3G networks in the second half of 2004 by several other European operators, the Group anticipates both favourable pricing and supply of handsets going forward. Sales of 3G handsets are now expected to grow satisfactorily. Technology, network infrastructure and handset supply are all firmly developed and the Group is now focusing on sales and operations in order to increase the awareness of **3**'s innovative services and establish its customer base.

***3** helps Australian executives bridge distances by enabling them to talk and solve problems face to face with clients and colleagues in Australia and overseas.*

In the UK, the operation continued to roll out its network and at the year end, over 5,000 cellsites were in operation with a footprint covering over 70% of the population and over 98% coverage via a 2G national roaming agreement with O_2 (UK). Over 66% of the capital expenditure requirements have been spent to date. Earlier this year, **3** UK announced the launch of "ThreePay", its first "Pay-As-You-Go" offer to customers that prefer to pre-pay for their mobile service. In addition, **3** UK announced the launch of rugby video news to follow the 6 Nations rugby tournament as well as match highlights of the FA Premier League. Earlier this year, **3** UK also began offering the next generation NEC 616 and 313 handsets and Motorola A925.

Name	Group's Interest	Location
Europe		
HI3G Access	60%	Sweden
HI3G Access Norway	60%	Norway
HI3G Denmark	60%	Denmark
Hutchison 3G Austria	100%	Austria
Hutchison 3G Ireland	100%	Ireland
Hutchison 3G Italia	88.67%	Italy
Hutchison 3G UK	65%	UK
Others		
Hutchison 3G Australia	46.3%	Australia
Hutchison 3G Hong Kong	70.9%	Hong Kong
Partner Communications	43.21%	Israel

During the year, the Group and KPN Mobile ("KPN") settled their disputes and the Group entered into an agreement providing for the purchase of KPN's 15% interest in 3G UK which KPN acquired from the Group for £900 million in 2000. The Group is paying a total of £90 million for this interest, of which £60 million has been paid. Upon payment of the last of three equal amounts, the Group's interest in 3G UK will increase to 80% in 2007.

In Italy, the operation continued to roll out its network and at the year end over 4,300 cellsites were in operation with a footprint covering almost 60% of the population and approximately 100% coverage via a 2G national roaming agreement with TIM. Over 67% of the capital expenditure requirements have been spent to date. Earlier this year, **3** Italy and TIM extended the range of their commercial association and revised the terms of their roaming, site sharing and interconnection agreements. In addition, the agreement included provisions for sharing the two carriers' mobile phone broadcast rights to *Serie A* and *Serie B* football club sports events. **3** Italy recently launched, among others, two new tariff plans, "PowerFull" dedicated to high-use professionals and "inTREnet.plus" aimed at those who communicate especially with fixed lines, and the company also launched "Tua TV" which allows the viewing of live TV on **3** handsets of the fourth edition of the "Big Brother" TV series. **3** Italy is also offering the NEC 616 and 313 handsets as well as the Motorola A925 to its customers.

In Australia, the **3** operation continued to roll out its network which exceeded 1,700 cellsites at the end of the year with a footprint covering approximately 70% of the population in its licence areas and approximately 92% national coverage via a 2G national roaming agreement with Vodafone (Australia). Over 60% of the capital expenditure requirements have been spent to date. In February this year, HTA announced that it had passed the 100,000 customer mark with a very respectable ARPU of A$80 (approximately HK$460) per month and controlled churn rate of 1.1% per month. Also in February, Australia announced the arrival of the Motorola A925 model of mobile video handset that includes fully functional PDA, 65,536 colour touch screen for wide screen viewing of video clips and bluetooth capability among other features, which adds to the current NEC 616 and 313 handsets. **3** in Australia also provides video reporting on financial trading data, including a morning Wall Street report, a midday and close of day Australian Stock Exchange report plus near live stock quotes.

In Hong Kong, the **3** operation delayed the launch of its services due to a lack of handset supply. When commercial quantities of the NEC 616 videophone handsets arrived on 27 January, services were launched with encouraging results. In the 7 weeks since launch, approximately 36,500 customers have been added to this bi-lingual service. **3** Hong Kong offers a variety of services including "Daily Express" and "Today 3" providing, among others, daily updates of news, weather, the Hong Kong stock market, video clips of FA Premier League football highlights, music video clips and movie trailer video clips. **3** Hong Kong has partnered with Reuters to supply up-to-date video financial and world news, i-CABLE to provide local and world news reports and traffic updates, TVB to provide video clips of popular TV series highlights, celebrity interviews and news, Metro Radio to provide Hong Kong's first multimedia broadcasting service on video mobile phones, and Universal Music, EMI, Warner Music and Gold Label to provide full-version music videos and original recordings of popular local and international singers to **3** Hong Kong customers. The network of over 1,200 cellsites in operation together with roaming on the Group's 2G network provides a territory-wide coverage in Hong Kong. Over 70% of the capital expenditure requirements have been spent to date. **3** Hong Kong has also recently begun offering the NEC 313 and Motorola A925 video handset models to expand its range of available handsets.

In Sweden, Denmark and Austria, the lack of handsets supply delayed the commencement of full commercial services and these businesses are now beginning to market their service offerings. In September, HI3G Access was awarded a licence to operate a 3G network in Norway for a consideration of NOK 62 million (approximately HK$69 million) and is developing this business as an extension of the Swedish and Danish **3** operations. The development of the Ireland and Israel 3G businesses are progressing satisfactorily.

*The unique design of the 3ServiceCentre in Hong Kong reflects the dynamic spirit of **3**'s fascinating video mobile communications world, providing a comfortable environment for customers to enjoy comprehensive customer services.*

***3** Austria's flagship store invigorates Vienna's most famous shopping thoroughfare Mariahilferstrasse.*