



The Group's telecommunications division consists of a 49.8% interest in Hutchison Telecommunications International ("HTIL"), which is listed on the stock exchanges of Hong Kong and New York, and the **3** Group businesses in Europe and Australia. HTIL holds the Group's interests in 2G and 3G mobile operations in Hong Kong, Israel and Indonesia, 2G mobile operations in India, Macau, Sri Lanka, CDMA2000-1X operations in Thailand, Vietnam and Ghana, and a Hong Kong fixed-line operation. The **3** Group is one of the world's leading operators of third-generation mobile telecommunications technology with controlling interests in **3** branded businesses in seven countries in Europe and Australia.



# **Hutchison Telecommunications International**

HTIL announced turnover of HK\$24,356 million, a 64% increase over last year. HTIL's loss attributable to shareholders was HK\$768 million, including a one-off loss on disposal of the Paraguay business of HK\$352 million, compared to a loss attributable to shareholders of HK\$30 million in 2004, which included a one-time gain of HK\$1,300 million on disposal of a 26% interest in its then listed subsidiary, Hutchison Global Communications Holdings ("HGCH"). Excluding the effect of this one-time gain, the comparable loss attributable to shareholders improved 42%. At 31 December 2005, HTIL had a consolidated mobile customer base of 16.9 million, representing a 39% increase over the beginning of the year. The Group's share of EBIT increased from HK\$162 million to HK\$2,789 million, mainly due to the strong growth in its mobile operations in India and reduced losses incurred by the operations in Thailand, partially offset by the loss on disposal of the Paraguay business. The Group's share of HTIL's turnover and EBIT amounted to 12% of the Group's total revenue and 5% of EBIT from its established businesses.

Telecommunications \* Telecomm



The Hutch House in Mumbai is beautifully illuminated by vibrant pink lights, truly exemplifying the Hutch Spirit.

In August, HTIL, acquired all the shares in its then listed subsidiary, HGCH, that it did not already own in exchange for either cash or HTIL shares. After the privatisation and de-listing of HGCH, the Group's interest in HTIL was diluted from approximately 74.3% to approximately 69.1%, and a profit on disposal of HK\$1,150 million was realised by the Group. In addition, in December, the Group disposed of a 19.3% interest in HTIL to a strategic partner, Orascom Telecom, for a consideration of HK\$10,100 million, which gave rise to a further profit on disposal of HK\$7,400 million. HTIL and Orascom Telecom agreed to align their respective procurement processes to exploit synergies and to identify and pursue cooperation opportunities. Following the sale, the Group holds a 49.8% interest in HTIL, and as a result, HTIL is treated as an associated company of the Group.

In India, HTIL's 2G mobile operations continued to make significant progress both organically and through acquisition. The customer base has increased 59% to 11.4 million. Turnover increased 41% to HK\$9,996 million and EBITDA increased 47% to HK\$3,237 million. Following the completion of the acquisition of BPL Mobile Cellular, which operates in three licence areas, in January this year, and the pending acquisitions of BPL Mobile Communications ("BPL Mumbai") and Essar Spacetel, HTIL's India operation is positioning itself to become a national mobile telecommunication services operator with coverage in all 23 licence areas. The acquisition of BPL Mumbai, which operates in Mumbai, and Essar Spacetel, which has applied for seven new licences, remain subject to regulatory approval and other conditions.

In Israel, Partner announced revenues of US\$1,113 million, in line with 2004 and profit attributable to shareholders of US\$77 million, a 25% decrease, primarily due to the financial expenses related to the restructuring of Partner's debts, the impact of the inter-carrier termination rate reductions that were mandated by the Ministry of Communications, and the increased depreciation, amortisation and network expenses related to the 3G network. At 31 December 2005, Partner had over 2.5 million 2G and 3G customers, an estimated market share of approximately 32%.

In Hong Kong, after the privatisation of HGCH, good progress was made during the year to streamline and integrate the fixed-line and mobile businesses in Hong Kong in face of increasing competition. Measures included the outsourcing of certain functions and a reduction in total staff, which improved

"HTIL had a consolidated mobile customer base of 16.9 million at 31 December 2005, a 39% increase over the beginning of the year."



Partner Communications commemorates five years of trade on the

NASDAG



 HGCH promotes the "IDD 0088 Unlimited Plan" through a boxing demonstration in Causeway Bay, Hong Kong's major shopping district.



 A Thai lady uses her Hutch phone at the Royal Palace, a famous landmark in Bangkok. Hutch phones have become very popular among the young generation in Thailand as the features of the phones make communications more accessible and enjoyable.



3 Hong Kong is the first 3G operator in Hong Kong to provide full 3G coverage of the entire MTR underground railway network and all 12 major vehicle tunnels, bringing customers truly seamless 3G video communications and high-speed download of video contents.

the financial performance and organisational efficiency of the businesses. The Hong Kong operations reported combined turnover of HK\$6,041 million and EBITDA increased 42% to HK\$1,465 million.

The mobile business in Hong Kong is the leading 3G operator and one of the largest mobile operators in the Hong Kong market, with a total customer base of approximately two million, including a 3G customer base now in excess

of 500,000, which continues to provide a healthy revenue stream despite intense competition. Turnover increased 3% to HK\$3,837 million, driven by the growing 3G customer base and higher ARPU associated with 3G services. EBITDA increased 112% to HK\$769 million, a recovery from 2004 with the successful completion of various cost optimisation initiatives.

Tolegammunications \* Telecommunications \* Telecomm

Turnover for the fixed-line telecommunications business totalled HK\$2,204 million, an increase of 18% over 2004, reflecting strong growth in international direct dialing, residential broadband and the international and local data business. EBITDA was HK\$696 million compared to HK\$670 million in 2004.

In Thailand, the operation moved closer to EBITDA breakeven and became EBITDA positive on a monthly basis by the end of the year, and the business is now on a strong footing despite an extremely difficult operating environment. Turnover was HK\$1,045 million and LBITDA improved from HK\$233 million in 2004 to HK\$15 million in 2005. The customer base increased by 19% to 732,000. A number of initiatives was undertaken during the year, including restructuring the organisation, outsourcing the network maintenance and information technology operations, which resulted in a positive EBITDA for the last quarter of the year and is expected to have a positive impact in 2006.

In Indonesia, in July, HTIL acquired a 60% stake in PT Hutchison CP Telecommunications, a company with both 2G and 3G nationwide spectrum. With a strategic partner, the CP Group of Indonesia, and network supplier, Siemens, network rollout has commenced and commercial services are expected to be launched during the second half of this year. Indonesia has a sizable market of over 217 million people and a telephony penetration level below average for the region.

In Vietnam, HTIL received in February 2005 an investment licence to engage in a business cooperation with Hanoi Telecommunication Joint Stock Company to build, develop and operate a nationwide mobile telecommunications network. Vietnam offers an opportunity to bring mobile services to a market with significant growth potential. With Nortel as the supplier, the business is currently building a nationwide CDMA2000-1X network and it is expected to launch commercial services in the second half of the year.

# 3 Group

The **3** Group has interests in 3G mobile operations in the UK, Italy, Sweden, Denmark, Austria, Ireland, 2G and 3G mobile operations in Australia and a licence for the development of a 3G network in Norway. As evidenced by the recently reported operating performance of incumbent cellular operators in Europe, competition has been fierce throughout 2005. Unlike most of its competitors, the 3G businesses continued to improve their operating and financial performances and grow their customer bases in 2005. The Group's businesses have also maintained their 3G market leading positions in the face of the incumbents launching their own 3G services. The Group's 3G customer base has grown 65.5% from 31 December 2004 to 11,061,000 at 31 December 2005 and currently stands at 11,909,000. During 2005, all the 3G businesses increased their market share led by 3 Italia, with an estimated market share of over 8% and in the UK of over 5%, measured by customer numbers.

The **3** Group reported substantially improved financial performance with revenue totalling HK\$37,502 million for 2005, an increase of HK\$21,760 million or 138% over last year, reflecting the continuing growth of a high quality customer base and by above market average non-voice revenues. The proportion of lower-risk, higher-value postpaid, or contract, customers in the overall base increased from 36% last year to 40% at the end of 2005, reflecting a concerted effort to continue acquiring higher than market average value customers. The **3** Group's monthly average revenue per user on



 The 3 shop in Rome on via del Corso, one of the most famous shopping districts in the capital of Italy.

# "The 3 Group reported total revenue of HK\$37,502 million, an increase of 138%."



 3 UK continues its rollout of ThreeStores with a new "experience-based" store design, reflecting the growing importance of media contents in the sales process.



 Enthusiastic customers inquire about 3 products and services at a 3 store in Austria.

a trailing 12-month average active customer basis ("ARPU") of €42.20, represents a modest decline from the €43.11 reported in the Group's interim announcement. The decline relates to the ARPU in the first six months of 2005 included in this calculation. However, both ARPU and non-voice service revenues as a percentage of ARPU have strengthened in the second half of the year. The 3 Group's ARPUs remain higher than the market averages in all the respective countries of operation. All of the operations have reported improving proportions of non-voice revenue which, when combined with the higher than market average ARPU, results in a substantially higher than market average spend on non-voice services.

Margins improved during the year, reflecting economies of scale from a sizeable customer base, and the positive effects of increased incoming traffic and from reduced domestic roaming traffic due to the judicious placement of new network coverage. Operating costs were tightly managed through performance improvements and optimisation with additional savings being achieved through network maintenance and other outsourcing programmes. As a result of increased revenue and cost improvements, the 3 Group achieved its target of full-year positive earnings before interest expense and finance costs, taxation, depreciation and amortisation and before investment in customer acquisition costs ("EBITDA before all CACs") of HK\$1.825 million, a turnaround of 123% from the comparable LBITDA of HK\$7,906 million in 2004. 3 Italia and 3 UK have each progressed further and on a monthly basis achieved a second important cashflow milestone, reporting positive EBITDA after deducting all CACs. 3 Italia first achieved this target in August and 3 UK in December, after including the cash benefits of its

outsourcing agreements. This indicates that the revenues from these operations now cover both operating costs and the costs of continuing to grow their customer base and recurring revenue stream. As a whole, the **3** Group's target is to achieve positive EBITDA after all CACs for the full year in 2006.

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Total CACs of HK\$23,543 million increased 15% compared to 2004 due to the acquisition of more customers. Of this amount, HK\$12,099 million related to postpaid customers, the value of which was capitalised to be amortised over the term of the respective customer contracts, and HK\$11,444 million relates to prepaid customers, the value of which was expensed. The average cost of acquisition per customer for the year increased nominally to €293 from the level reported in the interim announcement of €274 per customer. This was partially due to manufacturers' delays in delivering lower cost handsets in the second half of the year as well as the higher proportion of postpaid customers versus prepaid customers added to the customer base in the second half of the year. Although this average was higher in the second half of the year, there has also been an improvement in ARPU in the second half of the year which implies that this customer acquisition spending succeeded in acquiring higher-value customers in the second half of the year. The current and contracted handset costs are significantly lower than the 2005 averages. This is expected to result in the cost of acquiring customers, relative to the value of customers acquired, to decrease through 2006.

The Group's accounting policy, consistent with the current interpretation of Hong Kong Accounting Standard 38, and last year's treatment, is to expense CACs of prepaid customers and to capitalise postpaid CACs which are amortised and charged to the profit and loss account over the duration of the customer contract period, generally 12 to 24 months. LBITDA after expensed CACs totalled HK\$9,619 million compared to HK\$16,329 million, a 41% improvement.

Total depreciation, amortisation of licence fees and other rights and amortisation of capitalised postpaid CACs increased from HK\$22,120 million in 2004, to HK\$26,661 million for 2005, mainly due to the increase in amortisation of postpaid CACs as the customer base grows. The resultant LBIT for the 3 Group totalled HK\$36,280 million, compared to HK\$38,449 million for last year, before a one-time profit of HK\$9,400 million from the exercise by the Group of its right to re-purchase from the minority shareholders of 3 UK their

35% interest for £210 million, a substantial discount to its net asset value and to the £2,100 million paid to the Group by the minority shareholders when they acquired these interests in 2000. Including this profit, the **3** Group LBIT totalled HK\$26,880 million compared to HK\$38,449 million last year.

The **3** Group's capital expenditure, which was approximately HK\$14,051 million in 2005, has reduced compared to the HK\$21,428 million in 2004 and is expected to decline significantly in 2006 as the network construction phase nears completion.

# **Key Business Indicators**

Current key business indicators for the 3 Group and HTIL's 3G businesses are:

	Registered 3G Customers at 22 March 2006 (000)	12-month Average Revenue per User ("ARPU") <sup>(1)</sup> in 2005			Mix of Postpaid/Prepaid Customers (ratio) at 31 December 2005
		Total  Local Currency/HK\$	Non-voice		
			ARPU %	ARPU	
Australia (2)	854	A\$78.00/463	24%	A\$19.00/110	85/15
Austria	340	€53.92/520	14%	€7.60/73	68/32
Italy	6,005	€34.87/335	30%	€10.31/99	19/81
Sweden & Denmark	502	SEK382.90/398	16%	SEK59.73/62	78/22
UK & Ireland	3,569	£34.51/486	23%	£8.00/113	56/44
<b>3</b> Group Total/Average	11,270	€42.20/406	25%	€10.47/101	40/60
Hong Kong <sup>(3)</sup>	521				
Israel (4)	118				
Total	11,909				

- Note 1: ARPU equals total revenue before promotional discounts and excluding handset and connection revenues, divided by the average number of active customers in the period, where an active customer is one that has generated revenue from either an outgoing or incoming call or 3G service in the preceding three months.
- Note 2: Active customers as announced by this listed subsidiary updated from its results announcement date of 7 March for net customer additions to 22 March.
- Note 3: Registered customers as announced by listed HTIL updated from its results announcement date of 9 March for net customer additions to 22 March.
- Note 4: Registered customers as announced on 9 March by listed HTIL.

### UK

The customer base of the wholly-owned subsidiary **3** UK, has grown steadily by 30% from 31 December 2004 to 3.4 million at 31 December 2005 and currently totals approximately 3.6 million. ARPU on a trailing 12-month average active customer basis increased from £33.83 at the time of the interim announcement to £34.51, primarily due to the increased focus on postpaid customer acquisition and the continuing improvement in the mix to more lower-risk, higher-value postpaid customers in the customer base. **3** UK currently has a market share of over 5% of the total mobile market and its

ARPU continues to be above the mobile market average. The higher-margin non-voice revenue rose to 23% of total ARPU compared to 22% at the time of our interim announcement.

The financial performance of **3** UK improved significantly during the year. Total revenue grew 150%, reflecting the increased customer base and increased ARPU. **3** UK reported its first full-year positive EBITDA before all CACs in 2005 and encouragingly, on a monthly basis, reported its first month of positive EBITDA after all CACs in December after including the cash benefits of its outsourcing agreements.

In December, **3** UK signed an outsourcing agreement with Ericsson for the operational management of **3** UK's commercial network infrastructure and information systems. Network ownership and strategic decisions remain with **3** UK. This agreement is expected to generate significant savings over the seven-year period of the contract.

With the continuing growth of its customer base and revenues, combined with cost savings arising from the outsourcing agreement and other cost initiatives, **3** UK is targetting to be EBITDA positive after all CACs for the full year 2006.

#### Italu

3 Italia, in which the Group has a 95.4% interest, increased its customer base impressively by 98% from 31 December 2004 to 5.6 million at 31 December 2005 and currently totals over six million. Although ARPU declined modestly since the time of the interim announcement from €35.78 to €34.87 per month, ARPU continues to be at a premium to the Italy mobile market average. The decrease in ARPU has been partially offset by the improvement in gross margin as a result of increased penetration and usage of unique higher-margin non-voice 36 services. The non-voice revenue as a percentage of total revenue increased from 26% to 30% of total ARPU during the year.

The financial performance of **3** Italia improved significantly with total revenue growing 178%. **3** Italia also reported its first full-year positive EBITDA before all CACs in 2005. **3** Italia progressed well during the year and, on a monthly basis, reported its first month of positive EBITDA after deducting all CACs in August, reflecting the enlarged customer base and cost savings arising from the network outsourcing agreement with Ericsson that commenced on 1 April last year.

In November, **3** Italia announced the acquisition of Channel 7 which holds a network licence for nationwide TV distribution in Italy. **3** Italia plans to develop and operate a Digital Video Broadcast to Handheld (DVB-H) network to bundle interactive digital video services with its other 3G services.

As the customer base continues to grow, related revenues increase and with the introduction of new digital services and cost saving initiatives, **3** Italia is targetting to be EBITDA positive after all CACs in 2006.

#### Australia

The Group's 57.8% owned listed subsidiary in Australia, Hutchison Telecommunications Australia ("HTA"), announced total revenue of A\$916 million, an increase of 19%, and a net loss attributable to shareholders of A\$547 million, a 21% improvement compared to A\$690 million last year. The increased revenue reflects the continuing growth of the **3** customer base and strengthening contribution from non-voice services. HTA announced that their total customer base (on an active basis versus a registered customer basis) has grown 23% from 31 December 2004 to 1,035,000 at 31 December 2005 of which 87% were postpaid customers. The 3G customer base (on an active basis) has grown by 58% from 31 December 2004 to 654,000 at 31 December 2005 and currently stands at 854,000 customers. Total ARPU declined slightly from A\$70 in 2004 to A\$67 per month in 2005, mainly due to a reduction in voice ARPU. The total ARPU contribution from non-voice services grew strongly from A\$7 to A\$12 per month in 2005 overall. Specifically, the 3G business non-voice ARPU grew from A\$13 to A\$19 per month and represents 24% of total ARPU.

#### Sweden/Denmark/Austria

In the Sweden and Denmark businesses, in which the Group has 60% interests, has grown by 19% from 31 December 2004 to 461,000 at 31 December 2005 and currently totals 502,000. ARPU declined slightly from the time of the interim announcement from SEK396.33 to SEK382.90 per month. The higher-margin non-voice services increased from 13% of ARPU to 16%. Total revenue increased by 135% compared to 2004, when customer growth was starting from a small customer base.

The customer base of wholly-owned subsidiary **3** Austria increased by 83% from 31 December 2004 to 302,000 at 31 December 2005 and currently totals 340,000. ARPU declined from €56.17 at the time of the interim announcement to €53.92 per month. The higher-margin non-voice services increased from 13% of ARPU to 14%. Total revenue increased by 160% compared to 2004.

# Others

The **3** Ireland business was commercially launched in November and the Norway business is to be developed as an extension of the Sweden and Denmark operations.

# Interest Expense, Finance Costs and Taxation

The Group's interest expense and finance costs for the year, including its share of associated companies' and jointly controlled entities' interest expense, amounted to HK\$18,156 million, an increase of 34%, mainly due to increased loans to fund the acquisition of Marionnaud and The Perfume Shop and the development of the **3** Group businesses in Italy and Australia, new bank loans put in place in Sweden and Denmark and the increase in market interest rates. Further information on these expenses can be found in the "Group Capital Resources and Liquidity" section on page 54 of the annual report.

With regards to deferred taxation, as part of the Group's required adoption of the Hong Kong Financial Reporting Standards effective 1 January 2005 (see Note 1 to the accounts), the Group has adopted the current interpretation of Hong Kong Accounting Standard 12, Income Taxes. Pursuant to the adoption of this standard with retrospective effect, the deferred tax assets for tax losses carried forward of 3 Italia and the other 3 Group businesses are not recognised in the accounts, except for 3 UK where, among other things, taxation losses can be carried forward indefinitely. The Group recorded a net taxation charge of HK\$866 million compared to a net credit of HK\$622 million in 2004, mainly due to a decrease in deferred tax credits reflecting a decreased benefit of tax losses as 3 UK losses declined, in line with its improved performance during the year.

Deferred tax assets are carried on the Group's balance sheet and reduce net losses after taxation and minority interests for the year. As with any balance sheet asset, these must be tested for impairment at each balance sheet date. In the case of **3** UK's deferred tax assets, impairment could be required if and to the extent that, at a future time, the performance of its business does not provide convincing evidence that it is probable such tax benefits would be realised.

# **Summary**

The results for the Group's established businesses reflect the healthy growth of these businesses, organically and through strategic acquisitions. In addition, we have realised value for our shareholders through selective strategic disposal transactions. In 2006, we will focus on integrating the newly acquired businesses with our existing operations to leverage on the enlarged market positions in those segments. We will continue to expand our businesses mainly through organic growth and also by acquisitions, where good opportunities arise, to sustain steady and strong growth.

The progress of the **3** Group continues to be encouraging and its target is to achieve overall positive EBITDA after all CACs in 2006.

The results of 2005 were achieved through the strong efforts and dedication of the Group's employees. I would like to join our Chairman in thanking them for their strong support and hard work throughout the year.

# Fok Kin-ning, Canning

Group Managing Director

Hong Kong, 23 March 2006